

# Appendix A

## EI Chapter 6A

**Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects**

**December 2025**



AUSTRALIAN  
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REGULATOR

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# Appendix A

## Economic regulation of NSW non-contestable revenue determinations under Part 5 of the *EII Act 2020* (EII Chapter 6A)

This EII Chapter 6A states the general obligation of the AER under the *Electricity Infrastructure Investment 2020* (NSW) (EII Act) to make revenue determinations for Network Operators subject to an authorisation as defined in section 36A of the EII Act.

### Interpretation

- a) A reference in a rule of the National Electricity Rules or any guideline, incentive scheme or model made by the AER under the National Electricity Rules or National Electricity Law is taken to mean that rule, guideline, incentive scheme or model under this EII Chapter 6A.
- b) Italicised expressions in this EII Chapter 6A are as defined in Chapter 6A and/or the glossary in Chapter 10 of the National Electricity Rules, unless the expression is listed in column 1 of the table below, in which case the meaning that applies is that listed in column 2.

Italicised expression	Meaning
<i>Concessional finance</i>	An arrangement between a <i>government funding body</i> and a <i>Network Operator</i> under which the <i>government funding body</i> directly or indirectly provides financial support to the <i>Network Operator</i> pursuant to a <i>concessional finance agreement</i> .
<i>Concessional finance agreement</i>	An agreement between a <i>Network Operator</i> , or a related entity of the <i>Network Operator</i> , and a <i>government funding body</i> which the <i>government funding body</i> specifies to be such an agreement for the purposes of 6A.3.3(b) or 6A.6.3A of EII Chapter 6A, or clauses 6.2.9(b), 6A.3.3(b) or 6A.6.3A of the <i>National Electricity Rules</i> .
<i>Financeability request</i>	Has the meaning given in clause 6A.6.3A(b) of EII Chapter 6A.
<i>National Electricity Rules</i>	National Electricity Rules has the same meaning as in the <i>National Electricity (NSW) Law</i> .
<i>Prescribed transmission service</i>	Services related to carrying out a network infrastructure project for which the Network Operator is subject to an authorisation (as defined in section 36A of the EII Act).
<i>Regulatory control period</i>	Regulatory control period means the period to which a total revenue cap applies to a Network Operator by virtue of a revenue determination under the EII Act.
<i>Regulatory information notice or RIN</i>	Information notice or notice, issued by the Regulator under section 38(7) of the EII Act.

Italicised expression	Meaning
<i>Regulatory obligation or requirement</i>	Regulatory requirement (as defined in clause 46(3) of the EII Regulation).

- c) Additional italicised expressions used in this EII Chapter 6A (but not in NER Chapter 6A or the glossary in Chapter 10 of the National Electricity Rules) are listed in column 1 of the table below with the meaning that applies listed in column 2.

Italicised expression	Meaning
<i>Network Operator</i>	<p>Network operator has the meaning given in the Dictionary of the EII Act: “network operator means a person who owns, controls or operates, or proposes to own, control or operate, network infrastructure.”</p> <p>For the purposes of an adjustment of amounts, under section 36(1A) of the EII Act, includes a network operator who was subject to an authorisation or a person who was a network operator subject to an authorisation.</p>
<i>Revenue determination</i>	Revenue determination has the meaning given in the Dictionary of the EII Regulation: “a determination made by the regulator under the Act, section 38, in relation to a network operator subject to an authorisation.”

## **Part A Introduction**

[Deleted]

## **Part B Revenue determinations generally**

### **6A.2 Revenue determinations**

#### **6A.2.1 Duty of AER to make revenue determinations**

- (a) As required by section 38(1) of the EII Act, the *AER* must determine the amount payable to a *Network Operator* to whom Division 3 of the EII Act applies.
- (b) The *AER* will determine the amount referred to in clause 6A.2.1(a) in accordance with the EII Act, EII Regulation and this EII Chapter 6A.

#### **6A.2.2 Components of transmission determinations**

[Deleted]

#### **6A.2.3 Guidelines, schemes and models**

(a)–(c) [Deleted]

## **Part C Regulation of Revenue – Regulated Network Services**

### **6A.3 Allowed revenue from network services**

#### **6A.3.1 Allowed revenue for regulatory year**

The revenue that a *Network Operator* may earn in any *regulatory year* of a *regulatory control period* from the provision of regulated network services is the *maximum allowed revenue* subject to any adjustments referred to in clause 6A.3.2, and is to be determined in accordance with:

- (1) the *revenue determination*; and
- (2) the provisions of this Part C.

#### **6A.3.2 Adjustment of maximum allowed revenue**

The *maximum allowed revenue* that a *Network Operator* may earn in any *regulatory year* of a *regulatory control period* from the provision of regulated network services is subject to adjustment in accordance with clauses 6A.7 or 6A.15.

#### **6A.3.3 Concessional finance adjustments**

##### **Notification and provision of concessional finance agreement**

- (a) A *Network Operator* who has entered into a *concessional finance agreement* that requires any of the benefits of the *concessional finance* to be shared with consumers of electricity, must provide the *AER* with a copy of that agreement within 40 business days of entering into that

agreement.

- (b) A *concessional finance agreement* provided under paragraph (a) must include:
    - (1) the name of the *government funding body* providing the *concessional finance* and the contact details for that body;
    - (2) a description of the expenditure in relation to which the *concessional finance* is being provided;
    - (3) a statement about whether the benefits of the relevant *concessional finance* will be passed through to consumers of electricity as:
      - (i) an adjustment to the regulatory asset base of the *Network Operator*;
      - (ii) an amount to be passed through to NSW electricity customers; or
      - (iii) a combination of the mechanisms referred to in subparagraphs (i) and (ii),
- (Network CF Adjustment)**
- (4) where paragraph (3)(i) applies, a description of the assets to which the *concessional finance* applies, as well as the value, timing and details of the adjustment to be made to the regulatory asset base and the relevant asset lives of the associated assets;
  - (5) where paragraph (3)(ii) applies, the amount, or methodology to determine the amount, to be passed through to NSW electricity customers in each *regulatory year* of each *regulatory control period* that the amount is to be passed through;
  - (6) where paragraph (3)(iii) applies, the information in subparagraphs (4) and (5); and
  - (7) if the *concessional finance agreement* was entered into by a related entity of the *Network Operator*, the name, ACN and contact details of the entity that is party to the agreement.

**Making of a Network CF Adjustment**

- (c) If a Network CF Adjustment is conditional on one or more events specified in the *concessional finance agreement*, then the *Network Operator* must provide written notice to the *AER* as soon as practicable once the conditions are satisfied.
- (d) Except where paragraph (e) or (k) applies, the *AER* must make a Network CF Adjustment in accordance with the *concessional finance agreement* within 40 *business days* of receiving the:
  - (1) *concessional finance agreement* under paragraph (a), if the *concessional finance agreement* does not specify that the Network CF Adjustment is conditional on one more or events; or
  - (2) notice under paragraph (c), if the *concessional finance agreement* specifies that the Network CF Adjustment is conditional on one more events.

- (e) If the *AER* receives:
  - (1) a concessional finance agreement pursuant to paragraph (a); or
  - (2) a notice pursuant to paragraph (c),during the last two *regulatory years* of a *regulatory control period* and it is not practicable to implement the Network CF Adjustment in the current *regulatory control period*, then:
  - (3) the *AER* must notify the *Network Operator* that it is not practicable to implement the Network CF Adjustment in the current *regulatory control period* within 40 business days of receiving the *concessional finance agreement* under paragraph (a);
  - (4) the time period under which the *AER* must take action under paragraph (d) does not apply; and
  - (5) the *AER* must make the Network CF Adjustment within 40 *business days* of the *AER* making the *revenue determination* in respect of the forthcoming *regulatory control period*, or do so as part of the *revenue determination* itself.
- (f) If the relevant Network CF Adjustment under paragraph (d) or (e) will apply in one or more *regulatory years* of a subsequent *regulatory control period*, then:
  - (1) if the *concessional finance agreement* provides that the Network CF Adjustment applies in the same way in the next *regulatory control period*, the Network CF Adjustment is binding on the *AER* and the *Network Operator* for that subsequent *regulatory control period*; and
  - (2) if the *concessional finance agreement* provides that the Network CF Adjustment does not apply in the same way in the next *regulatory control period*, then the *Network Operator* must notify the *AER* for each relevant *regulatory control period* pursuant to the process set out in paragraphs (b)(3) to (b)(6).

**Note**

Where a *concessional finance agreement* applies over multiple *regulatory control periods*, the *Network Operator* is required to notify the *AER* in its next *Revenue Proposal*. See clause 6A.10.1(i).

**Annual updates of Network CF Adjustment**

- (g) If:
  - (1) paragraph (b)(3)(ii) or (b)(3)(iii) applies; and
  - (2) the amount of benefits to be passed through to consumers of electricity is a variable amount that is not the same every *regulatory year*,then the *Network Operator* must confirm with the *AER*, prior to the commencement of each *regulatory year*, the value of the Network CF Adjustment to be made in the forthcoming *regulatory year* with sufficient notice for the adjustment to take effect. Prior to providing the confirmation to the *AER*, the *Network Operator* must ensure that the value to be provided has been endorsed and approved by the relevant

*government funding body.*

- (h) If the *Network Operator* has not provided sufficient notice under paragraph (g), the *AER* must notify the *Network Operator* that it is not practicable to implement the Network CF Adjustment for that *regulatory year* as soon as practicable.

**Information provision to AER regarding concessional finance agreement**

- (i) A *Network Operator* must provide the *AER* with such information as the *AER* requires for the purpose of making a Network CF Adjustment under paragraph (d), (e) or (g) within the timeframe specified by the *AER* in a notice provided to the *Network Operator* by the *AER* for that purpose.
- (j) Before making a Network CF Adjustment under paragraph (d), (e) or (g), the *AER* may:
  - (1) request information from the *government funding body*; and
  - (2) consult with the *government funding body* in respect of the *concessional finance agreement* and may disclose to the *government funding body* any information received from the *Network Operator* under paragraphs (b) and (i) for that purpose.
- (k) If the *AER* is satisfied that making a Network CF Adjustment under paragraph (d) or (e) involves issues of such complexity or difficulty that the time limit for making the Network CF Adjustment should be extended, the *AER* may extend that time limit by a further period of up to 60 *business days*, provided that it gives written notice to the *Network Operator* of that extension not later than 10 *business days* before the expiry of that time limit.
- (l) If the *AER* gives a written notice to the *Network Operator* stating that it requires information from a *government funding body* in order to make a Network CF Adjustment under paragraph (d) or (e), then, for the purpose of calculating elapsed time, the period between when the *AER* gives that notice to the *Network Operator* and when the *AER* receives that information from that *government funding body* is to be disregarded.
- (m) If the *AER* receives confidential information from a *government funding body* pursuant to paragraph (l), the *AER* must treat that information as confidential information.

**Amendment or termination of a concessional finance agreement**

- (n) If the *concessional finance agreement* provided by the *Network Operator* in accordance with paragraph (a) is varied such that it affects the Network CF Adjustment or is terminated, then the *Network Operator* must (as applicable):
  - (1) provide to the *AER* a copy of the varied *concessional finance agreement* within 40 *business days* of the variation; or
  - (2) provide to the *AER* the details of the arrangement agreed between the *government funding body* and the *Network Operator* with respect to the terminated *concessional finance agreement*.



- (o) If the *Network Operator* gives notice of a variation or termination of a *concessional finance agreement* under paragraph (n), then the AER must review the *concessional finance arrangement* in accordance with the process under paragraphs (a) to (m) as if that *concessional finance arrangement* is a new *concessional finance agreement* and adjust, replace or terminate the existing Network CF Adjustment (as applicable).

**Nature of concessional finance benefits sharing**

- (p) Any Network CF Adjustment made under this clause 6A.3.3, or arrangement reached between the *government funding body* and the *Network Operator* under paragraph (n)(2), must not reverse, disallow or recover, or have the effect of, reversing, disallowing or recovering any of the *concessional finance* benefits that have already been shared with consumers of electricity under previous Network CF Adjustments.

## **6A.4 Revenue determinations**

### **6A.4.1 Introduction**

- (a) The procedure and approach for the making of a *revenue determination* for a Network Operator is contained in Part E of this EII Chapter 6A and involves the submission to the AER of a *Revenue Proposal* by the Network Operator.
- (b) Such a *Revenue Proposal* must comply with the requirements of the EII Act, EII Regulation and this Guideline including EII Chapter 6A, and in particular must:
  - (1) be prepared using the *post-tax revenue model* referred to in clause 6A.5;
  - (2) comply with the requirements of, and contain or be accompanied by the information required by, any relevant written notice under section 38(7) of the EII Act; and
  - (3) contain the information and matters specified in Schedule 6A.1.

### **6A.4.2 Contents of revenue determination**

- (a) A *revenue determination* for a Network Operator is to specify, for a regulatory control period, the following matters:
  - (1) the amount of the estimated *total revenue cap* for the regulatory control period or the method of calculating that amount;
  - (2) the *annual building block revenue requirement* for each *regulatory year* of the regulatory control period;
  - (3) **[Deleted]**;
  - (3A) the regulatory asset base as at the commencement of the regulatory control period;
  - (4) appropriate methodologies for the indexation of the regulatory asset base;

- (5) the values that are to be attributed to the *performance incentive scheme parameters* for the purposes of the application to the Network Operator of any *service target performance incentive scheme* that applies in respect of the regulatory control period;
- (6) the values that are to be attributed to the *efficiency benefit sharing scheme parameters* for the purposes of the application to the Network Operator of any *efficiency benefit sharing scheme* that applies in respect of the regulatory control period;
- (6A) how any *capital expenditure sharing scheme*, is to apply to the Network Operator; and
- (7) the commencement and length of the regulatory control period.
- (8) **[Deleted]**
- (a1) A *revenue determination* for a Network Operator is also to specify whether depreciation for establishing the regulatory asset base as at the commencement of the following regulatory control period is to be based on actual or forecast capital expenditure.
- (b) Unless otherwise determined by the *AER*:
  - (1) the *total revenue cap* may not relate to more than one network infrastructure project that is owned, controlled or operated by a Network Operator; and
  - (2) there is to be a separate *total revenue cap* for each such network infrastructure project.
- (c) **[Deleted]**

## **6A.5 Post-tax revenue model**

### **6A.5.1 Introduction**

- (a) The process of preparing a *revenue determination* for a Network Operator involves the submission of a *Revenue Proposal* to the *AER* by the Network Operator under clause 6A.10.1. The Network Operator is required to prepare the *Revenue Proposal* using the *post-tax revenue model* in relation to that proposal, in accordance with the requirements of this EII Chapter 6A.
- (b) The principal purpose of the *post-tax revenue model* is to calculate the *maximum allowed revenue* under the *revenue determination*.
- (c) The *post-tax revenue model*, together with the *Revenue Proposal*, form the basis on which the *AER* assesses a *Revenue Proposal* and makes a *revenue determination*.

### **6A.5.2 Preparation, publication and amendment of post-tax revenue model**

The *AER* may prepare and *publish* a *post-tax revenue model*.

### **6A.5.3 Contents of post-tax revenue model**

**[Deleted]**

#### 6A.5.4 Building blocks approach

(a) **Building blocks generally**

The *annual building block revenue requirement* for a Network Operator for each *regulatory year* of a regulatory control period must be determined using a building blocks approach, under which the building blocks are:

- (1) indexation of the regulatory asset base - see paragraph (b)(1);
- (2) a return on capital for that year - see paragraph (b)(2);
- (3) the depreciation for that year - see paragraph (b)(3);
- (4) the estimated cost of corporate income tax of the Network Operator for that year - see paragraph (b)(4);
- (5) the revenue increments or decrements (if any) for that year arising from the application of any *efficiency benefit sharing scheme*, *capital expenditure sharing scheme*, *service target performance incentive scheme* - see paragraph (b)(5);
- (5A) **[Deleted]**;
- (6) the forecast operating expenditure accepted or substituted by the *AER* for that year – see paragraph (b)(6); and
- (7) compensation for other risks - see paragraph (b)(7).

(b) **Details about the building blocks**

For the purposes of paragraph (a):

- (1) for indexation of the regulatory asset base:
  - (i) the regulatory asset base is calculated in accordance with clause 6A.6.1 and schedule 6A.2; and
  - (ii) the building block comprises a negative adjustment equal to the amount referred to in clause S6A.2.4(c)(4) for that year;
- (2) the return on capital is calculated in accordance with clause 6A.6.2;
- (3) the depreciation is calculated in accordance with clause 6A.6.3 and EII Regulation;
- (4) the estimated cost of corporate income tax is determined in accordance with clause 6A.6.4;
- (5) the revenue increment or decrements referred to in subparagraph (a)(5) are those that arise as a result of the operation of any applicable *efficiency benefit sharing scheme*, *capital expenditure sharing scheme*, *service target performance incentive scheme*, as referred to in clauses 6A.6.5, 6A.6.5A or 6A.7.4.
- (5A) **[Deleted]**.
- (6) the forecast operating expenditure is accepted or substituted by the *AER* in accordance with clause 6A.6.6(c), clause 6A.6.6(c1) or clause 6A.13.2(b)(3) and (5) (as the case may be); and
- (7) the compensation for other risks is such amounts as the *AER*

determines are necessary for that year to compensate a Network Operator for risks that are not otherwise compensated for in the return on capital.

- (c) A determination must also include amounts for different components listed in section 38(2) of the EII Act.

#### **6A.5.5 Shared assets**

[Deleted]

#### **6A.5.6 Expenditure Forecast Assessment Guidelines**

- (a) The *AER* may specify guidelines (the *Expenditure Forecast Assessment Guidelines*) and the approach the *AER* proposes to use to assess the forecasts of operating expenditure and capital expenditure that form part of Network Operators' Revenue Proposals and the information the *AER* requires for the purposes of that assessment.

#### **6A.5A Capital expenditure incentive mechanisms**

- (a) In addition to applying the Transmission Efficiency Test and *Expenditure Forecast Assessment Guideline*, the *AER* may specify that the *Expenditure Incentive Guidelines* will apply to revenue determinations.
- (b) The *capital expenditure incentive objective* is to ensure that, where the value of a regulatory asset base is subject to adjustment in accordance with EII Chapter 6A then the only capital expenditure that is included in an adjustment that increases the value of that regulatory asset base is capital expenditure that reasonably reflects the *capital expenditure criteria*.

#### **6A.6 Matters relevant to the making of revenue determinations**

##### **6A.6.1 Regulatory asset base**

###### **Nature of regulatory asset base**

- (a) The regulatory asset base for a network infrastructure project owned, controlled or operated by a Network Operator is the value of those assets that are used by the Network Operator to provide regulated network services, but only to the extent that they are used to provide such services.

###### **Preparation, publication and amendment of model for rolling forward regulatory asset base**

- (b) The *AER* may develop and *publish* a model for the roll forward of the regulatory asset base for a network infrastructure project, referred to as the *roll forward model*.
- (c) [Deleted]
- (d) [Deleted]

###### **Contents of roll forward model**

(e) [Deleted]

**Other provisions relating to regulatory asset base**

(f) Other provisions relating to regulatory asset bases are set out in schedule 6A.2 of this EII Act Chapter 6A.

**6A.6.2 Return on capital**

The return on capital for a *Network Operator* for a *regulatory year* ( $RC_t$ ) is to be calculated using the following formula:

$$RC_t = a_t \times v_t$$

where:

$a_t$  is the *allowed rate of return* for the *Network Operator* for the *regulatory year*; and

$v_t$  is the value, as at the beginning of the *regulatory year*, of the regulatory asset base for the network infrastructure projects owned, controlled or operated by the *Network Operator* (as established in accordance with clause 6A.6.1 and schedule 6A.2).

(a) The return on capital for a *Network Operator* for a *regulatory year* is to be calculated in accordance with the formula set out in clause 6A.6.2 of the *NER*, applying the applicable *AER Rate of Return Instrument*.

**6A.6.3 Depreciation**

(a) The depreciation for each *regulatory year*:

- (1) must be calculated on the value of the assets as included in the regulatory asset base, as at the beginning of that *regulatory year*, for the relevant network infrastructure project; and
- (2) subject to paragraph (d), must be calculated
  - (i) providing such depreciation schedules conform with the requirements set out in paragraph (b), using the depreciation schedules for each asset or category of assets that are nominated in the relevant *Network Operator*'s revenue proposal; or
  - (ii) to the extent the depreciation schedules nominated in the *Network Operator*'s revenue proposal do not so conform, using the depreciation schedules determined for that purpose by the *AER* in its final decision on the *Network Operator*'s revenue proposal.

(b) The depreciation schedules referred to in paragraph (a) must conform to the following requirements:

- (1) except as provided in clause 6A.6.3A, the schedules must depreciate using a profile that reflects the nature of the assets or category of assets over the economic life of that asset or category of assets;
- (2) the sum of the real value of the depreciation that is attributable to

- any asset or category of assets over the economic life of that asset or category of assets (such real value being calculated as at the time the value of that asset or category of assets was first included in the regulatory asset base for the relevant network infrastructure project) must be equivalent to the value at which that asset or category of assets was first included in the regulatory asset base for the relevant network infrastructure project; and
- (3) the economic life of the relevant assets and the depreciation methodologies and rates underpinning the calculation of depreciation for a given regulatory control period must be consistent with those determined for the same assets on a prospective basis in the *revenue determination* for that period.
- (c) **[Deleted]**
- (d) The AER must modify the depreciation schedules referred to in paragraph (b) if it is satisfied that it is reasonably necessary to ensure:
- (1) the *revenue determination* is consistent with the objects specified in section 3(1)(a) to (c) of the EII Act; and
- (2) the Network Operator is capable of efficiently obtaining finance to carry out the network infrastructure project.

### 6A.6.3A Financeability adjustment

#### Definitions

- (a) In this clause:

**benchmark gearing ratio** means the benchmark gearing ratio set out in the *applicable rate of return instrument* applicable at the time the AER applies the *financeability test*.

**financeability threshold** means the benchmark credit rating used to estimate the return on debt component in the *applicable rate of return instrument*.

a reference to *concessional finance agreement* means a *concessional finance agreement* entered into after 14 December 2023.

#### Financeability request by Network Operator

- (b) Subject to paragraphs (c) and (d), if an asset (or group of assets) forms part of an *actionable ISP project*, a *Network Operator* may, in conjunction with:
- (1) **[Deleted]**
- (2) a Revenue Proposal under clause 6A.10.1,
- (3) **[Deleted]**
- submit a request to the AER to:
- (4) approve that the asset (or group of assets) be depreciated on a basis other than in accordance with clause 6A.6.3(b)(1)
- (5) **[Deleted]**

(a *financeability request*)

- (c) A *financeability request* must include:
  - (1) the Network Operator's proposed adjustments to the depreciation of the asset (or group of assets);
  - (2) if applicable, the information in paragraph (f); and
  - (3) any information required under the *financeability guidelines*.
- (d) A *Network Operator*:
  - (1) **[Deleted]**
  - (2) may only submit a *financeability request* once for an *actionable ISP project*, or a stage of an *actionable ISP project* if the *actionable ISP project* is a staged project in a draft or final *Integrated System Plan*, as part of a Revenue Proposal under clause 6A.10.1.
- (e) A *Network Operator* must only submit a *financeability request* if the following conditions are satisfied:
  - (1) where the *Network Operator* has entered into one or more *concessional finance agreements* for the *actionable ISP project* to which the *financeability request* relates:
    - (i) all of the benefits under each relevant *concessional finance agreement* are being passed through to consumers of electricity under clause 6A.3.3; or
    - (ii) where the benefits under each relevant *concessional finance agreement* are not all being passed through to consumers of electricity, the *concessional finance agreement* specifies how the benefits of the *concessional finance* that are retained by the *Network Operator* are to be taken into account by the *AER* in applying the *financeability test* and with the written approval of the *government funding body*; and
  - (2) where the *Network Operator* has entered into one or more *concessional finance agreements* for any *actionable ISP project* other than the *actionable ISP project* to which the *financeability request* relates:
    - (i) all of the benefits under each relevant *concessional finance agreement* are being passed through to consumers of electricity under clause 6A.3.3; or
    - (ii) where the benefits under each relevant *concessional finance agreement* are not all being passed through to consumers of electricity, each relevant *concessional finance agreement* specifies how the benefits of the *concessional finance* that are retained by the *Network Operator* are to be taken into account by the *AER* in applying the *financeability test*.
- (f) If the *Network Operator* submits a *financeability request*, then in conjunction with a *Revenue Proposal* under clause 6A.10.1, it must also provide to the *AER*:
  - (1) in the circumstances specified in paragraph (e)(1)(ii) or (e)(2)(ii), to

the extent not already provided under clause 6A.3.3:

- (i) a copy of every *concessional finance agreement* (including any amendments to it) relating to any *actionable ISP project* it, or a related entity of it, has entered into;
- (ii) if applicable, the written approval of the *government funding body* to which the *financeability request* relates;
- (iii) if a *concessional finance agreement* was entered into by a related entity of the *Network Operator*, the name, ACN and contact details of the related entity that is party to the agreement and an explanation of the benefit of the *concessional finance* to the *Network Operator*;
- (iv) a description of the capital expenditure in relation to which the *concessional finance* is being provided; and
- (v) a description of the benefits of the *concessional finance* to the *Network Operator* and an explanation of how the benefits are to be taken into account by the AER in applying the *financeability test*, in accordance with the *concessional finance agreement*.

(2) **[Deleted]**

- (g) The AER may consult with the relevant *government funding body* in respect of the *financeability request* and in doing so, may:
  - (1) request information from the *government funding body*; or
  - (2) disclose any information received from the *Network Operator* in the *financeability request* for that purpose.
- (h) If the AER receives confidential information from a *government funding body*, the AER must treat that information as confidential information.

**Financeability test by AER**

- (i) If the AER receives a *financeability request*, it must apply the *financeability test*:
  - (1) in accordance with paragraphs (j) to (l) and the *financeability guidelines*; and
  - (2) having regard to the information set out in the *financeability request* and relevant *concessional finance agreements*.
- (j) The purpose of the *financeability test* is to determine whether or not there is a *financeability issue* as described in paragraph (l) for a *Network Operator*.
- (k) To determine whether or not there is a *financeability issue* for a *Network Operator*, the AER must:
  - (1) first, determine a financeability position without the *actionable ISP project* using the *post-tax revenue model* to determine the *Network Operator's maximum allowed revenue*, using:
    - (i) the benchmark gearing ratio; or



- (ii) if a *government funding body* and *Network Operator* have agreed in a *concessional finance agreement* to adjust the benchmark gearing ratio by increasing the equity component in that ratio for one or more previous *actionable ISP projects*, the benchmark gearing ratio as adjusted in accordance with the relevant *concessional finance agreements*,  
**(step one)**; and
  - (2) second, determine a financeability position using the same process used under subparagraph (1), but including the relevant *actionable ISP project* and, if applicable, any adjustment to the benchmark gearing ratio for the increased equity component in that ratio agreed in a *concessional finance agreement* for that project (**step two**),  
(together, the *financeability test*).
- (l) A *financeability issue* exists for the purposes of paragraph (k) if the *financeability test* demonstrates that the financeability position for the *Network Operator* is:
  - (1) equivalent to or higher than the financeability threshold at step one, and deteriorates below the financeability threshold following the application of step two; or
  - (2) lower than the financeability threshold at step one, and deteriorates below that financeability position following the application of step two,(each, a *financeability issue*).

#### **Addressing a financeability issue**

- (m) If the *financeability test* demonstrates that there is a *financeability issue*, the *AER* must, as part of:
  - (1) **[Deleted]**
  - (2) the decision under clause 6A.13.1, if the financeability request is submitted in accordance with clause 6A.6.3A(b)(2),
  - (3) **[Deleted]**address the *financeability issue* by:
  - (1) if paragraph (l)(1) applies, preventing the *Network Operator's* financeability position determined in step one from deteriorating below the financeability threshold following the application of step two; or
  - (2) if paragraph (l)(2) applies, preventing the *Network Operator's* financeability position determined in step one from deteriorating below that financeability position following the application of step two,to the extent possible.
- (n) If the *AER* makes a determination or decision under paragraph (m) to address a *financeability issue*, it may address the *financeability issue* by

doing any one or more of the following:

- (1) depreciating the asset (or group of assets) forming part of the *actionable ISP project* using a profile that it considers appropriate; and
  - (2) **[Deleted]**
  - (3) taking other steps through another mechanism available to the AER under this EII Chapter 6A.
- (o) If the AER determines under paragraph (n) that the depreciation adjustment or other steps will apply in a subsequent *regulatory control period*, then the depreciation adjustment is binding on the *AER* and the *Network Operator* for that subsequent *regulatory control period*.

#### **Financeability guidelines**

- (p) **[Deleted]**
- (q) **[Deleted]**
- (r) **[Deleted]**
- (s) **[Deleted]**

#### **6A.6.4 Estimated cost of corporate income tax**

The estimated cost of corporate income tax of a Network Operator for each *regulatory year* ( $ETC_t$ ) must be estimated in accordance with the following formula:

$$ETC_t = (ETI_t \times r_t) (1 - \gamma)$$

where:

$ETI_t$  is an estimate of the taxable income for that *regulatory year* that would be earned by a benchmark efficient entity as a result of the provision of regulated network services if such an entity, rather than the Network Operator, operated the business of the Network Operator, such estimate being determined in accordance with the *post-tax revenue model*;

$r_t$  is the expected statutory income tax rate for that *regulatory year* as determined by the *AER*; and

$\gamma$  is the *allowed imputation credits* for the Network Operator for the *regulatory year*, which must be calculated by applying the current Rate of Return Instrument made by the *AER* under the National Electricity Law.

#### **6A.6.5 Efficiency benefit sharing scheme**

- (a) The *AER* may apply an incentive scheme or schemes (*efficiency benefit sharing scheme*) that provide for a fair sharing between Network Operators and NSW electricity customers of:
  - (1) the efficiency gains derived from the operating expenditure of Network Operators for a regulatory control period being less than; and
  - (2) the efficiency losses derived from the operating expenditure of

Network Operators for a regulatory control period being more than,

the forecast operating expenditure accepted or substituted by the *AER* for that regulatory control period in accordance with clause 6A.6.6(c), clause 6A.6.6(c1) or clause 6A.13.2(b)(3) and (5) (as the case may be).

- (b) In implementing an *efficiency benefit sharing scheme*, the *AER* must have regard to:
  - (1) the need to provide Network Operators with a continuous incentive (that is equal in each year of any regulatory control period) to reduce operating expenditure;
  - (2) the desirability of both rewarding Network Operators for efficiency gains and penalising Network Operators for efficiency losses;
  - (3) any incentives that Network Operators may have to inappropriately capitalise operating expenditure;
  - (4) [Deleted]
  - (5) the principles in section 37 of the EII Act and clause 46(1)(b) of the EII Regulation.
- (c)–(h) [Deleted]

#### **6A.6.5A Capital expenditure sharing scheme**

- (a) A *capital expenditure sharing scheme* is a scheme that provides Network Operators with an incentive to undertake efficient capital expenditure during a regulatory control period.
- (b)–(d) [Deleted]
- (e) In deciding:
  - (1) whether to apply a *capital expenditure sharing scheme* to a Network Operator for a regulatory control period; and
  - (2) the nature and details of any *capital expenditure sharing scheme* that is to apply to a Network Operator for a regulatory control period,the *AER* must:
  - (3) make that decision in a manner that contributes to the achievement of the *capital expenditure incentive objective*; and
  - (4) take into account:
    - (i) the *capital expenditure sharing scheme principles*, and the matters referred to in paragraph (g), as they apply to the Network Operator;
    - (ii) the circumstances of the Network Operator; and
    - (iii) the principles in section 37 of the EII Act and clause 46(1)(b) of the EII Regulation.
- (f) The *capital expenditure sharing scheme principles* are:

- (1) Network Operators should be rewarded or penalised for improvements or declines in efficiency of capital expenditure; and
  - (2) the rewards and penalties should be commensurate with the efficiencies or inefficiencies in capital expenditure, but a reward for efficient capital expenditure need not correspond in amount to a penalty for the same amount of inefficient capital expenditure.
- (g) The matters the *AER* must also take into account are:
- (1) the interaction of the scheme with other incentives that Network Operators may have in relation to undertaking efficient operating or capital expenditure; and
  - (2) the *capital expenditure objectives* and, if relevant, the *operating expenditure objectives*.

#### 6A.6.6 Forecast operating expenditure

- (a) A *Revenue Proposal* must include the total forecast operating expenditure for the relevant regulatory control period which the Network Operator considers is required in order to achieve each of the following (the *operating expenditure objectives*):
  - (1) meet or manage the expected demand for regulated network services over that period;
  - (2) comply with all regulatory requirements (as defined in the EII Regulation).
  - (3) **[Deleted]**
  - (4) maintain the safety of the network infrastructure project through the supply of regulated network services.
- (b) The forecast of required operating expenditure of a Network Operator that is included in a *Revenue Proposal* must:
  - (1) comply with the requirements of any written notice under section 38(7) of the EII Act;
  - (2) be for expenditure that is properly allocated to regulated network services in accordance with the principles and policies set out in the *Cost Allocation Methodology* for the Network Operator; and
  - (3) include both:
    - (i) the total of the forecast operating expenditure for the relevant regulatory control period; and
    - (ii) the forecast operating expenditure for each *regulatory year* of the relevant regulatory control period.
- (c) Subject to paragraph (c1), the *AER* must accept the forecast of required operating expenditure of a Network Operator that is included in a *Revenue Proposal* if the *AER* is satisfied that the total of the forecast operating expenditure for the regulatory control period reasonably reflects each of the following (the *operating expenditure criteria*):
  - (1) the efficient costs of achieving the *operating expenditure objectives*;

- (2) the costs that a prudent operator would require to achieve the *operating expenditure objectives*; and
  - (3) a realistic expectation of the cost inputs required to achieve the *operating expenditure objectives*.
- (c1) If:
- (1) a Network Operator made *network support payments* in accordance with a relevant agreement for *network support services* in the previous regulatory control period; and
  - (2) the Network Operator must continue to make *network support payments* to fulfil obligations under the relevant agreement for *network support services* in the relevant regulatory control period, the *AER* must accept the forecast of required operating expenditure of the Network Operator included in a *Revenue Proposal* in relation to the remainder of costs required to meet obligations under the relevant agreement for network support services in the relevant regulatory control period.
- (d) Subject to paragraph (c1), if the *AER* is not satisfied as referred to in paragraph (c), it must not accept the forecast of required operating expenditure of a Network Operator that is included in a *Revenue Proposal*.
- (e) In deciding whether or not the *AER* is satisfied as referred to in paragraph (c), the *AER* must have regard to the following (the *operating expenditure factors*):
- (1) **[Deleted]**
  - (2) **[Deleted]**
  - (3) **[Deleted]**
  - (4) the most recent benchmark operating expenditure that would be incurred by an efficient Network Operator over the relevant regulatory control period;
  - (5) the actual and expected operating expenditure of the Network Operator during any preceding regulatory control periods;
  - (5A) the extent to which the operating expenditure forecast includes expenditure to address the concerns of electricity consumers as identified by the Network Operator in the course of its engagement with electricity consumers;
  - (5B) the extent to which a component of the operating expenditure forecast includes expenditure related to payments required to be made by the Network Operator to the Infrastructure Planner under a contractual arrangement the Network Operator was required to enter into under the relevant authorisation or direction;
  - (6) the relative prices of operating and capital inputs;
  - (7) the substitution possibilities between operating and capital

expenditure;

- (8) whether the operating expenditure forecast is consistent with any incentive scheme or schemes that apply to the Network Operator under clauses 6A.6.5 or 6A.7.4;
- (9) the extent the operating expenditure forecast is referable to arrangements with a person other than the Network Operator that, in the opinion of the *AER*, do not reflect arm's length terms;
- (10) [Deleted]
- (11) [Deleted]
- (12) [Deleted]
- (13) [Deleted]
- (13A) the principles in section 37 of the EII Act and section 46(1)(b) of the EII Regulation; and
- (14) any other factor the *AER* considers relevant and which the *AER* has notified the Network Operator in writing, is an *operating expenditure factor*.

(f) [Deleted]

#### **6A.6.7 Transmission Efficiency Test and forecast capital expenditure**

- (a) A *Revenue Proposal* must include the total forecast capital expenditure for the relevant regulatory control period which the Network Operator considers is required to achieve each of the following (the *capital expenditure objectives*):
  - (1) [Deleted]
  - (2) comply with all regulatory requirements (as defined in the EII Regulation) associated with the provision of regulated network services; and
  - (3) [Deleted]
  - (4) maintain the safety of the network infrastructure project through the supply of regulated network services.
- (b) The forecast of required capital expenditure of a Network Operator that is included in a *Revenue Proposal* must:
  - (1) comply with the requirements of any relevant notice issued under section 38(7) of the EII Act;
  - (2) be for expenditure that is properly allocated to regulated network services in accordance with the principles and policies set out in the *Cost Allocation Methodology* for the Network Operator;
  - (3) include:
    - (i) the total of the forecast capital expenditure for the relevant regulatory control period;
    - (ii) the forecast capital expenditure for each *regulatory year* of the relevant regulatory control period; and

- (iii) the amounts in each of paragraphs (i) and (ii) broken down into:
      - (A) forecast capital expenditure for development and construction; and
      - (B) forecast capital expenditure for activities other than development and construction.
  - (4) **[Deleted]**
- (c) Subject to (c1), the *AER* must accept the forecast of required capital expenditure of a Network Operator that is included in a *Revenue Proposal* if the *AER* is satisfied that the total of the forecast capital expenditure for the regulatory control period reasonably reflects each of the following (*capital expenditure criteria*):
  - (1) the efficient costs of achieving the *capital expenditure objectives*;
  - (2) the costs that a prudent operator would require to achieve the *capital expenditure objectives*; and
  - (3) a realistic expectation of the cost inputs required to achieve the *capital expenditure objectives*.
- (c1) The forecast capital expenditure for development and construction of a network infrastructure project must not exceed the maximum capital cost, if any, notified to the *AER* by the Consumer Trustee under section 31(2) of the EII Act.
- (d) If the *AER* is not satisfied as referred to in paragraph (c), it must not accept the forecast of required capital expenditure of a Network Operator.
- (e) In deciding whether or not the *AER* is satisfied as referred to in paragraph (c), the *AER* must have regard to the following (the *capital expenditure factors*):
  - (1) **[Deleted]**
  - (2) **[Deleted]**
  - (3) **[Deleted]**
  - (4) the most recent benchmark capital expenditure that would be incurred by an efficient Network Operator over the relevant regulatory control period;
  - (5) the actual and expected capital expenditure of the Network Operator during any preceding regulatory control periods;
  - (5A) the extent to which the capital expenditure forecast includes expenditure to address the concerns of electricity consumers as identified by the Network Operator in the course of its engagement with electricity consumers;
  - (5B) the extent to which a component of the capital expenditure forecast includes expenditure related to payments required to be made by the Network Operator to the Infrastructure Planer under a contractual arrangement the Network Operator was required to

enter into under the relevant authorisation or direction;

- (6) the relative prices of operating and capital inputs;
  - (7) the substitution possibilities between operating and capital expenditure;
  - (8) whether the capital expenditure forecast is consistent with any incentive scheme or schemes that apply to the Network Operator under clauses 6A.6.5A or 6A.7.4;
  - (9) the extent to which the capital expenditure forecast is referable to arrangements with a person other than the Network Operator that, in the opinion of the *AER*, do not reflect arm's length terms;
  - (10) [Deleted]
  - (11) [Deleted]
  - (12) [Deleted]
  - (13) [Deleted]
  - (13A) the principles in section 37 of the EII Act and clause 46(1)(b) of the EII Regulation; and
  - (14) any other factor the *AER* considers relevant and which the *AER* has notified the Network Operator in writing is a *capital expenditure factor*.
- (f) [Deleted]

#### **Forecast capital expenditure and contingent projects**

[Deleted]

##### **Note:**

The whole of capital expenditure is subject to review for prudence, efficiency and reasonableness but, in applying the Transmission Efficiency Test as set out in (c1) above, only components for development and construction are considered as required by section 38(4) of the EII Act.

#### **6A.6.8 The X factor**

[Deleted]

#### **6A.6.9 Pass through events**

- (a) A *Revenue Proposal* may include a proposal as to the events that should be defined as *pass through events* under clause 6A.7.3(a1)(5) having regard to the *nominated pass through event considerations*.
- (b) In determining whether to accept the pass through events nominated by a Network Operator in its *Revenue Proposal* under paragraph (a), the *AER* must take into account the *nominated pass through event considerations*.

#### **6A.7 Matters relevant to the adjustment of revenue cap after making of a revenue determination**



### 6A.7.1 Reopening of revenue determination for capital expenditure

- (a) Subject to paragraph (b), a Network Operator may, during a regulatory control period, apply to the *AER* to revoke and substitute a *revenue determination* that applies to it where:
- (1) an event that is beyond the reasonable control of the Network Operator has occurred during that regulatory control period and the occurrence of that event during that period (or of an event of a similar kind) could not reasonably have been foreseen by the provider at the time of the making of the *revenue determination* ('the **event**');
  - (2) no forecast capital expenditure was accepted or substituted by the *AER* for that period under clause 6A.6.7(c) or clause 6A.13.2(b)(4) and (5) (as the case may be) in relation to the event that has occurred;
  - (3) the Network Operator proposes to undertake capital expenditure to rectify the adverse consequences of the event;
  - (4) the total of the capital expenditure required during the regulatory control period to rectify the adverse consequences of the event:
    - (i) exceeds 10% of the value of the regulatory asset base for the relevant Network Operator for the first year of the relevant regulatory control period;
    - (ii) is such that, if undertaken, it is reasonably likely (in the absence of any other reduction in capital expenditure) to result in the total actual capital expenditure for that regulatory control period exceeding the total of the forecast capital expenditure for that regulatory control period as accepted or substituted by the *AER* in accordance with clause 6A.6.7(c) or clauses 6A.13.2(b)(4) and (5) (as the case may be); and
  - (5) The Network Operator can demonstrate that it is not able to reduce capital expenditure in other areas to avoid the consequence referred to in clause 6A.7.1(a)(4)(ii) without materially adversely affecting the *reliability* and security of the relevant network infrastructure project;
  - (6) a failure to rectify the adverse consequences of the event would be likely to materially adversely affect the *reliability* and security of the relevant network infrastructure project; and
  - (7) the event is not a *pass through event*.

In this paragraph (a), a reference to an event includes a series of events or a state of affairs, which may include a greater than anticipated increase in demand.

- (b) An application referred to in paragraph (a) must not be made within 90 *business days* prior to the end of a *regulatory year*.
- (c) Following its receipt of an application made in accordance with paragraphs (a) and (b), the *AER* must:

- (1) consult with the Network Operator and such other persons as it considers appropriate in relation to the application; and
- (2) make its decision on the application within 40 *business days* from the later of the date the *AER* receives the application and the date the *AER* receives any information required by the *AER* under paragraph (f1).
- (d) The *AER* must, and must only, revoke a *revenue determination* following an application made in accordance with paragraphs (a) and (b) if the *AER* is satisfied of each of the matters referred to in paragraph (a).
- (e) If the *AER* revokes a *revenue determination* under paragraph (d), the *AER* must make a new *revenue determination* in substitution for the revoked determination to apply for the remainder of the regulatory control period for which the revoked determination was to apply.
- (f) The substituted *revenue determination* must only vary from the revoked *revenue determination* to the extent necessary:
  - (1) to adjust the forecast capital expenditure for that regulatory control period to accommodate the amount of such additional capital expenditure as the *AER* determines is appropriate (in which case the amount of that adjustment will be taken to be accepted by the *AER* under clause 6A.6.7(c)); and
  - (2) to reflect the effect of any resultant increase in forecast capital expenditure on:
    - (i) the forecast operating expenditure for the remainder of the regulatory control period;
    - (ii) the *maximum allowed revenue* for each *regulatory year* in the remainder of the regulatory control period; and
    - (iii) **[Deleted]**.
- (f1) A Network Operator must provide the *AER* with such additional information as the *AER* requires for the purpose of making a decision on an application made by that Network Operator under paragraph (a) within the time specified by the *AER* in a notice provided to the Network Operator by the *AER* for that purpose.

#### **Extension of time limit**

- (g) If the *AER* is satisfied that the revocation and substitution of a revenue determination under paragraphs (d) and (e) involves issues of such complexity or difficulty that the time limit fixed in subparagraph (c)(2) should be extended, the *AER* may extend that time limit by a further period of up to 60 *business days*, provided that it gives written notice to the Network Operator of that extension not later than 10 *business days* before the expiry of that time limit.
- (h) If the *AER* extends the time limit under paragraph (g), it must make available on its website a notice of that extension as soon as is

reasonably practicable.

- (i) Subject to paragraph (i3), if the *AER* gives a written notice to the Network Operator stating that it requires information from an *Authority* in order to make a decision on an application made by the Network Operator under paragraph (a) then, for the purpose of calculating elapsed time, the period between when the *AER* gives that notice to the Network Operator and when the *AER* receives that information from that *Authority* is to be disregarded.
- (i1) Subject to paragraph (i3), if the *AER* gives a written notice to the Network Operator stating that, in order to make a decision on an application made by the Network Operator under paragraph (a), it requires information that it anticipates will be made publicly available by a judicial body or royal commission then, for the purpose of calculating elapsed time, the period between when the *AER* gives that notice to the Network Operator and when that information is made publicly available is to be disregarded
- (i2) Where the *AER* gives a notice to the Network Operator under paragraph (i) or (i1), it must:
  - (1) as soon as is reasonably practicable make available on its website a notice stating when the period referred to in paragraph (i) or (i1), as the case may be, has commenced;
  - (2) as soon as is reasonably practicable make available on its website a notice stating when the period referred to in paragraph (i) or (i1), as the case may be, has ended; and
  - (3) if the information specified in that notice is required from an *Authority*, promptly request that information from the relevant *Authority*.
- (i3) Paragraphs (i) and (i1) do not apply if the *AER* gives the notice specified in those paragraphs to the Network Operator later than 10 *business days* before the expiry of the time limit fixed in subparagraph (c)(2).

#### **Revocation and substitution of revenue determination**

- (j) If the *AER* revokes and substitutes a *revenue determination* under paragraph (e), that revocation and substitution must take effect from the commencement of the next *regulatory year*.

### **6A.7.2 Network support pass through**

- (a) This clause applies where a *network support event* occurs with respect to a *regulatory year* ('the **previous regulatory year**').
- (b) If a *network support event* occurs, a Network Operator must seek a determination by the *AER* to pass through a *network support pass through amount*.
- (c) Where a Network Operator seeks a determination as referred to in paragraph (b), the Network Operator must, within 60 *business days* of the end of the previous *regulatory year*, submit to the *AER* a written statement which specifies:

- (1) the details of the *network support event* including whether the event was a *negative network support event* or a *positive network support event*;
  - (2) the amount that the Network Operator proposes should be passed through in the *regulatory year* following the previous *regulatory year* as a result of the *network support event*;
  - (3) evidence:
    - (i) of the actual increase in the amount of *network support payments*, including certification by an independent and appropriately qualified expert; and
    - (ii) that such amounts occur solely as a consequence of the positive *network support event*; and
  - (4) such other information as may be required pursuant to the any relevant notice under section 38(7) of the EII Act.
- (d) If the *AER* determines that a *positive network support event* has occurred in respect of a statement under paragraph (c), the *AER* must determine the *network support pass through amount*, taking into account the matters referred to in paragraph (i).
  - (e) If the *AER* does not make the determination referred to in paragraph (d) within 60 *business days* from the date it receives the Network Operator's statement and accompanying evidence under paragraph (c), then, on the expiry of that period, the *AER* is taken to have determined that the amount as proposed in the Network Operator's statement under paragraph (c) is the *network support pass through amount*.
  - (f) If a *negative network support event* occurs (whether or not the occurrence of that event is notified by the Network Operator to the *AER* under paragraph (c)) and the *AER* determines to impose a requirement on the Network Operator in relation to that *negative network support event*, the *AER* must determine the *network support pass through amount* taking into account the matters referred to in paragraph (i).
  - (g) A Network Operator must provide the *AER* with such information as the *AER* requires for the purpose of making a determination under paragraph (f) within the time specified by the *AER* in a notice provided to the Network Operator by the *AER* for that purpose.

### **Consultation**

- (h) Before making a determination under paragraph (d) or (f), the *AER* may consult with the relevant Network Operator and such other persons as the *AER* considers appropriate, on any matters arising out of the relevant *network support event* as the *AER* considers appropriate.

### **Relevant factors**

- (i) In making a determination under paragraph (d) or (f), the *AER* must take into account:
  - (1) the matters and proposals set out in any statement given to the *AER* by the Network Operator under paragraph (c);

- (2) in the case of a *positive network support event*, the increase in costs in the provision of regulated network services that the Network Operator has incurred in the preceding *regulatory year* as a result of the *positive network support event*;
- (3) in the case of a *positive network support event*, the efficiency of the Network Operator's decisions and actions in relation to the risk of the event, including whether the Network Operator has failed to take any action that could reasonably be taken to reduce the magnitude of the *positive network support event* and whether the Network Operator has taken or omitted to take any action where such action or omission has increased the magnitude of the amount in respect of that event;
- (4) the time cost of money based on the *allowed rate of return* for the Network Operator for the relevant regulatory control period;
- (5) the need to ensure that the Network Operator only recovers any actual increment in costs under this paragraph (i) to the extent that such increment is solely as a consequence of a *network support event*; and
- (6) any other factors the *AER* considers relevant.

#### **6A.7.3 Cost pass through**

- (a1) Any of the following is a *pass through event* for a revenue determination:
  - (1) a regulatory requirement as defined in section 46(3) of the EII Regulation;
  - (2) a *service standard event*;
  - (3) a *tax change event*;
  - (4) an *insurance event*;
  - (5) any other event specified in a revenue determination as a *pass through event* for the determination.
- (a) If a *positive change event* occurs, a Network Operator may seek the approval of the *AER* to pass through a *positive pass through amount*.
- (b) If a *negative change event* occurs, the *AER* may require the Network Operator to pass through a *negative pass through amount* as determined by the *AER* under paragraph (g).

#### **Positive pass through**

- (c) To seek the approval of the *AER* to pass through a *positive pass through amount*, a Network Operator must submit to the *AER*, within 90 *business days* of the relevant *positive change event* occurring, a written statement which specifies:
  - (1) the details of the *positive change event*;
  - (2) the date on which the *positive change event* occurred;
  - (3) the *eligible pass through amount* in respect of that *positive change event*;

- (4) the *positive pass through amount* the Network Operator proposes in relation to the *positive change event*;
  - (5) the amount of the *positive pass through amount* that the Network Operator proposes should be passed through in the *regulatory year* in which, and each *regulatory year* after that in which, the *positive change event* occurred;
  - (6) evidence:
    - (i) of the actual and likely increase in costs referred to in subparagraph (3); and
    - (ii) that such costs occur solely as a consequence of the *positive change event*; and
  - (7) such other information as may be required pursuant to any relevant notice under section 38(7) of the EII Act.
- (d) If the *AER* determines that a *positive change event* has occurred in respect of a statement under paragraph (c), the *AER* must determine:
- (1) the *approved pass through amount*; and
  - (2) the amount of that *approved pass through amount* that should be passed through in the *regulatory year* in which, and each *regulatory year* after that in which, the *positive change event* occurred,
- taking into account the matters referred to in paragraph (j).
- (e) Subject to paragraph (l), the *AER* does not make the determinations referred to in paragraph (d) within 40 *business days* from the later of the date it receives the Network Operator's statement and accompanying evidence under paragraph (c), and the date it receives any additional information required under paragraph (e1), then, on the expiry of that period, the *AER* is taken to have determined that:
- (1) the *positive pass through amount* as proposed in the Network Operator's statement under paragraph (c) is the *approved pass through amount* in respect of that *positive change event*; and
  - (2) the amount of that *positive pass through amount* that the Network Operator proposes in its statement under paragraph(c) should be passed through in the *regulatory year* in which, and each *regulatory year* after that in which, the *positive change event* occurred, is the amount that should be so passed through in each such *regulatory year*.

### **Negative pass through**

- (f) A Network Operator must submit to the *AER*, within 90 *business days* of becoming aware of the occurrence of a *negative change event* for the Network Operator, a written statement which specifies:
- (1) the details of the *negative change event* concerned;
  - (2) the date the *negative change event* occurred;
  - (3) the costs in the provision of regulated network services that the

Network Operator has saved and is likely to save as a result of the *negative change event* until:

- (i) unless sub paragraph(ii) applies – the end of the regulatory control period in which the *negative change event* occurred; or
  - (ii) if the revenue determination for the regulatory control period following that in which the *negative change event* occurred does not make any allowance for the pass through of the cost savings - the end of the regulatory control period following that in which the *negative change event* occurred;
  - (4) the aggregate amount of those saved costs that the Network Operator proposes should be passed through;
  - (5) the amount of the costs referred to in subparagraph (4) the Network Operator proposes should be passed through in the *regulatory year* in which, and each *regulatory year* after that in which, the *negative change event* occurred; and
  - (6) such other information as may be required pursuant to any relevant notice under section 38(7) of the EII Act.
- (f1) If the occurrence of the *negative change event* is not notified by the Network Operator to the *AER* under paragraph (f) then, as soon as is reasonably practicable and before making a determination referred to in paragraph (g), the *AER* must notify the Network Operator of the occurrence of that *negative change event*.
- (g) If a *negative change event* occurs (whether or not the occurrence of that *negative change event* is notified by the Network Operator to the *AER* under paragraph (f)) and the *AER* determines to impose a requirement on the Network Operator in relation to that *negative change event* as described in paragraph (b), the *AER* must determine:
- (1) the *required pass through amount*; and
  - (2) taking into account the matters referred to in paragraph (j):
    - (i) how much of that *required pass through amount* should be passed through (the *negative pass through amount*); and
    - (ii) the amount of that *negative pass through amount* that should be passed through in the *regulatory year* in which, and each *regulatory year* after that in which, the *negative change event* occurred.
- (g1) Subject to paragraph (1), if the *AER* does not make the determinations referred to in paragraph (g) within 40 *business days* from:
- (1) where the Network Operator notifies the *AER* of the occurrence of the negative change event under paragraph (f) - the later of the date the *AER* receives the Network Operator's statement under paragraph (f) and the date the *AER* receives any information required by the *AER* under paragraph (h); or
  - (2) where the Network Operator does not notify the *AER* of the

occurrence of the negative change event under paragraph (f) – the later of the date the *AER* notifies the Network Operator under paragraph (g1) and the date the *AER* receives any information required by the *AER* under paragraph (h),

then the *AER* is taken to have determined that the required pass through amount is zero.

- (h) A Network Operator must provide the *AER* with such information as the *AER* requires for the purpose of making a determination under paragraph (g) within the time specified by the *AER* in a notice provided to the Network Operator by the *AER* for that purpose.

### Consultation

- (i) Before making a determination under paragraph (d) or (g), the *AER* may consult with the relevant Network Operator and such other persons as the *AER* considers appropriate, on any matters arising out of the relevant *pass through event* as the *AER* considers appropriate.

### Relevant factors

- (j) In making a determination under paragraph (d) or (g) in respect of a Network Operator, the *AER* must take into account:
  - (1) the matters and proposals set out in any statement given to the *AER* by the Network Operator under paragraphs (c) or (f) (as the case may be);
  - (2) in the case of a *positive change event*, the increase in costs in the provision of regulated network services that, as a result of the *positive change event*, the Network Operator has incurred and is likely to incur until:
    - (i) unless subparagraph (ii) applies – the end of the regulatory control period in which the *positive change event* occurred; or
    - (ii) if the revenue determination for the regulatory control period following that in which the *positive change event* occurred does not make any allowance for the recovery of that increase in costs – the end of the regulatory control period following that in which the *positive change event* occurred;
  - (2A) in the case of a *negative change event*, the costs in the provision of regulated network services that, as a result of the *negative change event*, the Network Operator has saved and is likely to save until:
    - (i) unless subparagraph(ii) applies – the end of the regulatory control period in which the *negative change event* occurred; or
    - (ii) if the revenue determination for the regulatory control period following that in which the *negative change event* occurred does not make any allowance for the pass through of those cost savings – the end of the regulatory control period following that in which the *negative change event*



occurred;

- (3) in the case of a *positive change event*, the efficiency of the Network Operator's decisions and actions in relation to the risk of the *positive change event*, including whether the Network Operator has failed to take any action that could reasonably be taken to reduce the magnitude of the *eligible pass through amount* in respect of that *positive change event* and whether the Network Operator has taken or omitted to take any action where such action or omission has increased the magnitude of the amount in respect of that *positive change event*;
- (4) the time cost of money based on the *allowed rate of return* for the Network Operator for the regulatory control period in which the *pass through event* occurred;
- (5) the need to ensure that the Network Operator only recovers any actual or likely increment in costs under this paragraph (j) to the extent that such increment is solely as a consequence of a *pass through event*;
- (6) in the case of a *tax change event*, any change in the way another *tax* is calculated, or the removal or imposition of another *tax*, which, in the *AER's* opinion, is complementary to the *tax change event* concerned;
- (6A) whether the costs of the *pass through event* have already been factored into the calculation of the Network Operator's *maximum allowed revenues* for the regulatory control period in which the *pass through event* occurred or will be factored into the calculation of the Network Operator's *maximum allowed revenues* for a subsequent regulatory control period;
- (6B) the extent to which the costs that the Network Operator has incurred and is likely to incur are the subject of a previous determination made by the *AER* under this clause 6A.7.3;
- (6C) the principles in section 37 of the EII Act and section 46(1)(b) of the EII Regulation; and
- (7) any other factors the *AER* considers relevant.

#### **Extension of time limits**

- (k) The *AER* must, by written notice to a Network Operator, extend a time limit fixed in paragraph (c) or (f) if the *AER* is satisfied that the difficulty of assessing or quantifying the effect of the relevant *pass through event* justifies the extension.
- (l) If the *AER* is satisfied that the making of a determination under paragraph (d) or (g) involves issues of such complexity or difficulty that the time limit fixed in paragraph (e) or (g1) should be extended, the *AER* may extend that time limit by a further period of up to 60 *business days*, provided that it gives written notice to the Network Operator of that extension not later than 10 *business days* before the expiry of that time limit.

- (m) If the *AER* extends a time limit under paragraph (l), it must make available on its website a notice of that extension as soon as is reasonably practicable.
- (n) Subject to paragraph (q), if the *AER* gives a written notice to the Network Operator stating that it requires information from an *Authority* in order to make a determination under paragraph (d) or (g) then, for the purpose of calculating elapsed time, the period between when the *AER* gives that notice to the Network Operator and when the *AER* receives that information from that *Authority* is to be disregarded.
- (o) Subject to paragraph (q), if the *AER* gives a written notice to the Network Operator stating that, in order to make a determination under paragraph (d) or (g), it requires information that it anticipates will be made publicly available by a judicial body or royal commission then, for the purpose of calculating elapsed time, the period between when the *AER* gives that notice to the Network Operator and when that information is made publicly available is to be disregarded.
- (p) Where the *AER* gives a notice to the Network Operator under paragraph (n) or (o), it must:
  - (1) as soon as reasonably practicable make available on its website a notice stating when the period referred to in paragraph (n) or (o), as the case may be, has commenced;
  - (2) as soon as is reasonably practicable make available on its website a notice stating when the period referred to in paragraph (n) or (o), as the case may be, has ended; and
  - (3) if the information specified in that notice is required from an *Authority*, promptly request that information from the relevant *Authority*.
- (q) Paragraphs (n) and (o) do not apply if the *AER* gives the notice specified in those paragraphs to the Network Operator later than 10 *business days* before the expiry of the time limit fixed in paragraphs (e) or (g1).

#### **6A.7.4 Service target performance incentive scheme**

- (a) The *AER* must develop and *publish* an incentive scheme or schemes (*service target performance incentive scheme*) that comply with the principles in paragraph (b).
- (b) The principles are that the *service target performance incentive scheme* should:
  - (1) provide incentives for each Network Operator to:
    - (i) provide greater *reliability* of the network infrastructure project at all times when users place greatest value on the *reliability* of the network infrastructure project; and
    - (ii) improve and maintain the *reliability* of those elements of the network infrastructure project that are most important to determining *spot prices*;
  - (2) result in a potential adjustment to the revenue that the Network

Operator may earn from the provision of regulated network services in each *regulatory year* in respect of which the *service target performance incentive scheme* applies;

- (3) ensure that the maximum revenue increment or decrement as a result of the operation of the *service target performance incentive scheme* will fall within a range that is between 1% and 5% of the *maximum allowed revenue* for the relevant *regulatory year*;
  - (4) take into account the regulatory requirements (as defined in the EII Regulation) with which Network Operators must comply;
  - (5) take into account any other incentives provided for in the *Rules* that Network Operators have to minimise capital or operating expenditure; and
  - (6) take into account the age and ratings of the assets comprising the relevant network infrastructure project.
- (c) At the same time as it *publishes* a *service target performance incentive scheme*, the *AER* must also *publish* parameters (the *performance incentive scheme parameters*) for the scheme. For the avoidance of doubt, the parameters may differ as between Network Operators and over time.
  - (d) The *AER* must set out in each *service target performance incentive scheme* any requirements with which the values attributed to the *performance incentive scheme parameters* must comply, and those requirements must be consistent with the principles set out in paragraph (b).
  - (e) The *AER* may specify that the *service target performance incentive scheme* will apply to revenue determinations that are remade under section 40 of the EII Act. The *service target performance incentive scheme* must not apply to the first regulatory control period for which a network infrastructure project is subject to a revenue determination under section 38 of the EII Act.
  - (f) The *AER* must develop and *publish* the first *service target performance incentive scheme* by 31 December 2027 and there must be a *service target performance incentive scheme* in force at all times after that date.

#### **6A.7.5 Small-scale incentive scheme**

**[Deleted]**

#### **6A.7.6 Demand management innovation allowance mechanism**

**[Deleted]**

#### **6A.7.7 Concessional finance adjustments**

The *revenue determination* will be amended in a manner determined by the *AER* to reflect the adjustment made by the *AER* pursuant to clauses 6A.3.3(d), (e) and (g), as relevant.

#### **6A.8 Contingent Projects**

[Deleted]

## **Part D Negotiated Transmission Services**

[Deleted]

## **Part E Procedure - Revenue determinations**

### **6A.10 Revenue Proposal**

#### **6A.10.1A AER's framework and approach paper**

[Deleted]

#### **6A.10.1B Notification of approach to forecasting expenditure**

[Deleted]

#### **6A.10.1 Submission of proposal**

- (a) A Network Operator must submit to the *AER* a *Revenue Proposal* relating to the regulated network services that are provided by means of, or in connection with, a network infrastructure project that is owned, controlled or operated by that Network Operator:
  - (1) if any of those regulated network services are subject to a revenue determination, 160 business days before the expiry of the period in respect of which that revenue determination applies; or
  - (2) if any of those regulated network services are not subject to a revenue determination, by the date specified in a notice to the Network Operator.
- (b) If applicable, a *Network Operator* may also submit to the *AER* a *financeability request* in conjunction with the *Revenue Proposal* submitted under paragraph (a).
- (c) The *Revenue Proposal* must comply with the requirements of and must contain or be accompanied by such information as is required by, any notice issued under section 38(7) of the EII Act.
- (d) If a *financeability request* is submitted pursuant to paragraph (b):
  - (1) the *financeability request* must comply with the requirements of clauses 6A.6.3A(c) to 6A.6.3A(f) (as applicable);
  - (2) the *Revenue Proposal* must set out the required revenue for the following scenarios:
    - (i) without the relevant *actionable ISP project*; and
    - (ii) with the relevant *actionable ISP project*, both with and without the *financeability request*; and
  - (3) the *Network Operator* must provide the *AER* with such additional information that the *AER* reasonably requests for the purposes of applying the *financeability test* or addressing the *financeability issue* in accordance with clause 6A.6.3A(m).

- (e) **[Deleted]**
- (f) The *Revenue Proposal* must also:
  - (1) **[Deleted]**
  - (2) identify any parts of the *Revenue Proposal* the Network Operator claims to be confidential and wants suppressed from publication on that ground in accordance with the EII Confidentiality Guidelines.
- (g) The *Revenue Proposal* must be accompanied by an overview paper which includes each of the following matters:
  - (1) a summary of the *Revenue Proposal* the purpose of which is to explain the *Revenue Proposal* in reasonably plain language to electricity consumers;
  - (2) a summary of the scope and terms of the Consumer Trustee's authorisation or the Minister's direction or authorisation and the network infrastructure project the authorisation or direction requires the Network Operator to carry out;
  - (3) a description of whether the Network Operator has engaged with electricity consumers and, if so, what feedback was provided and how that feedback has been taken into account in developing the *Revenue Proposal*;
  - (4) a statement identifying any elements of the *Revenue Proposal* that are to be set on a contestable basis;
  - (5) for each revenue determination after the initial determination, a comparison of the Network Operator's proposed revenue cap with its approved revenues for the preceding regulatory control period (by total and by component); and
  - (6) if applicable, a description of the *financeability request* and a summary of the *Network Operator's* proposal under clause 6A.6.3A(c).
- (h) **[Deleted]**
- (i) Where clause 6A.3.3(f) applies, the *Revenue Proposal* must be accompanied by a copy of the relevant *concessional finance agreement*.

#### **6A.10.2 [Deleted]**

### **6A.11 Preliminary examination and consultation**

#### **6A.11.1 Preliminary examination and determination of non-compliance with relevant requirements**

- (a) If the *AER* determines that:
  - (1) a *Revenue Proposal* submitted by a Network Operator; or
  - (2) a *financeability request* submitted by a *Network Operator*; or
  - (3) **[Deleted]**
  - (4) information contained in or accompanying such a *Revenue Proposal*,

under clause 6A.10.1 does not comply with the requirements of:

- (5) any relevant regulatory information instrument under section 38(7) of the EII Act; or
- (6) if applicable, the requirements of clauses 6A.6.3A(c) to (e); or
- (7) **[Deleted]**
- (8) this EII Chapter 6A; or
- (9) the maximum capital cost amount under sections 31(2) and 38(6) of the EII Act,

the *AER* must notify the Network Operator, Consumer Trustee and Infrastructure Planner of that determination as soon as practicable after receiving that *Revenue Proposal*, *financeability request* or information.

- (b) A determination referred to in paragraph (a) must be accompanied by written reasons that set out:
  - (1) the respects in which the *Revenue Proposal*, *financeability request* or information does not comply with the relevant requirements of any relevant information notice or requirements of clauses 6A.6.3A(c) to (e) and the requirements that have not been complied with; and
  - (2) in the case of information which does not comply with those requirements, the reason that the submission of information in accordance with those requirements would assist the *AER* in assessing the *Revenue Proposal*.

#### **6A.11.2 Resubmission of proposal or information**

- (a) If the *AER* notifies a Network Operator of a determination under clause 6A.11.1, the Network Operator must, within 10 business days of that notice, resubmit its *Revenue Proposal*, *financeability request* or the required information (as the case may be) in a form that complies with the relevant requirements set out in that determination.
- (b) A Network Operator may only make changes to its *Revenue Proposal*, *financeability request* or the required information for the purposes of paragraph (a) to address the matters raised in the determination under clause 6A.11.1.

#### **6A.11.2A Confidential information**

If the Network Operator has identified any part of the *Revenue Proposal* or the *financeability request* as submitted or resubmitted to the *AER* (as the case may be) under this Part to be confidential, the *AER* must, as soon as is reasonably practicable, make available on its website a notice that sets out:

- (a) the fact that the *Revenue Proposal* or the *financeability request* contains information over which a claim of confidentiality has been made;
- (b) the proportion of material in the *Revenue Proposal* or the *financeability request* that is subject to any claim of confidentiality compared to that

which is not subject to any such claim; and

- (c) the comparative proportion of material in the *Revenue Proposal* or the *financeability request* that is subject to any claim of confidentiality compared to that which is subject to claims of confidentiality in the *Revenue Proposals* or *financeability requests* (as applicable) of other Network Operators.

If the Network Operator has identified any part of the *Revenue Proposal* or the *financeability request* as submitted or resubmitted to the *AER* (as the case may be) under this Part to be confidential, the *AER* must, as soon as is reasonably practicable, make available on its website a notice that sets out the fact that the *Revenue Proposal* or the *financeability request* contains information over which a claim of confidentiality has been made.

### **6A.11.3 Consultation**

- (a) Subject to the provisions of the EII Act, the EII Regulation and the *financeability guidelines* about the disclosure of confidential information, the *AER* must *publish*:

- (1) the *Revenue Proposal*;
- (2) if applicable, the *financeability request*; and
- (3) **[Deleted]**
- (4) the information requested under an information notice issued under section 38(7) of the EII Act,

submitted or resubmitted to it (as the case may be) by the Network Operator under clause 6A.10 or this clause 6A.11, together with an invitation for written submissions on the documents and information referred to in subparagraphs (1)-(4), as soon as practicable after the *AER* determines that the *Revenue Proposal*, *financeability request* and information comply with the requirements of any information notice issued under section 38(7) of the EII Act or clauses 6A.6.3A(c) to (e) (as applicable).

- (b) **[Deleted]**
- (b1) **[Deleted]**
- (b2) **[Deleted]**
- (c) Any person may make a written submission to the *AER* on the *Revenue Proposal* or the *financeability request*, within the times specified in the invitation referred to in paragraph (a).

### **6A.12 Draft decision and further consultation**

**[Deleted]**

### **6A.13 Final decision**

#### **6A.13.1 Making of final decision**

- (a) The *AER* must make a final decision in relation to the Network

Operator.

- (a1) In making a final decision in relation to the Network Operator, and subject to clause 6A.16, the *AER* must have regard to each of the following:
  - (1) the information contained in or accompanying the *Revenue Proposal* and, if applicable, the *financeability request*;
  - (2) written submissions received under this Part E; and
  - (3) any analysis undertaken by or for the *AER* that is *published* as part of the final decision.
- (a2) **[Deleted]**
- (b) The *AER's* final decision must be made in accordance with, and must comply with, the relevant requirements of clause 6A.14, and if applicable, clause 6A.6.3A and the *financeability guidelines*.

#### **6A.13.2 Refusal to approve amounts, values or framework**

- (a) **[Deleted]**
- (b) If the *AER's* final decision is to refuse to approve an amount or value referred to in clause 6A.14.1(1) for the reason that, or a reason which includes the reason that, the *AER* is not satisfied that:
  - (1) the total of the forecast operating expenditure for the regulatory control period reasonably reflects the operating expenditure criteria, taking into account the operating expenditure factors; or
  - (2) the total of the forecast capital expenditure for the regulatory control period reasonably reflects the *capital expenditure criteria*, taking into account the *capital expenditure factors*,the *AER* must:
  - (3) where subparagraph (1) applies, include in its final decision (in addition to the estimate referred to in clause 6A.14.1(3)(ii)) the forecast operating expenditure for each *regulatory year* which the *AER* is satisfied reasonably reflects the *operating expenditure criteria*, taking into account the *operating expenditure factors*, subject only to the requirement that the total of such forecasts must equate to the estimate referred to in clause 6A.14.1(3)(ii);
  - (4) where subparagraph (2) applies, include in its final decision (in addition to the estimate referred to in clause 6A.14.1(2)(ii)) the forecast capital expenditure for each *regulatory year* which the *AER* is satisfied reasonably reflects the *capital expenditure criteria*, taking into account the *capital expenditure factors*, subject only to the requirement that the total of such forecasts must equate to the estimate referred to in clause 6A.14.1(2)(ii) and capital expenditure for development and construction of the network infrastructure project must not exceed the maximum capital cost, if any, notified to the *AER* by the Consumer Trustee under section 31(2) of the EII Act; and



- (5) use each such amount (and its components) in place of the forecast of required operating or capital expenditure that is included in the current *Revenue Proposal* for the purposes of calculating the amount or value that it has refused to approve in its final decision.

(c) [Deleted]

(d) [Deleted]

#### **6A.13.2A Out of scope revised documents or late submissions**

[Deleted]

#### **6A.13.3 Notice of final decision and revenue determination**

The *AER* must as soon as reasonably practicable after making its revenue determination, publish:

- (1) notice of the making of the final decision and determination; and
- (2) the final decision, including the reasons required to be included in it; and
- (3) the revenue determination.

#### **6A.13.4 Making of transmission determination**

[Deleted]

### **6A.14 Requirements relating to final decisions**

#### **6A.14.1 Contents of decisions**

A final decision under clause 6A.13 is a decision by the *AER*:

- (1) on the Network Operator's current *Revenue Proposal* in which the *AER* either approves or refuses to approve:
  - (i) the *total revenue cap* for the Network Operator for the regulatory control period;
  - (ii) subject to addressing any *financeability issue* in accordance with clauses 6A.6.3A(m), the *maximum allowed revenue* for the Network Operator for each *regulatory year* of the regulatory control period;
  - (iii) the values that are to be attributed to the *performance incentive scheme parameters* for any *service target performance incentive scheme* that is to apply to the Network Operator in respect of the regulatory control period;
  - (iv) the values that are to be attributed to the *efficiency benefit sharing scheme parameters* for any *efficiency benefit sharing scheme* that is to apply to the Network Operator in respect of the regulatory control period; and
  - (v) the commencement and length of the regulatory control period that has been proposed by the Network Operator,as set out in the *Revenue Proposal*, setting out the reasons for the decision;
- (2) in which the *AER* either:

- (i) acting in accordance with clause 6A.6.7(c), accepts the total of the forecast capital expenditure for the regulatory control period that is included in the current *Revenue Proposal* has satisfied the capital expenditure criteria, taking into account the capital expenditure forecasts including the *AER's* calculation under the Transmission Efficiency Test; or
  - (ii) acting in accordance with clause 6A.6.7(d), does not accept the total of the forecast capital expenditure for the regulatory control period that is included in the current *Revenue Proposal*, in which case the *AER* must set out its reasons for that decision and an estimate of the total of the Network Operator's required total capital expenditure including development and construction capital expenditure for the regulatory control period that the *AER* is satisfied reasonably reflects the *capital expenditure criteria*, taking into account the *capital expenditure factors*;
- (3) in which the *AER* either:
  - (i) acting in accordance with clause 6A.6.6(c) or clause 6A.6.6(c1), accepts the total of the forecast operating expenditure for the regulatory control period that is included in the current *Revenue Proposal*; or
  - (ii) acting in accordance with clause 6A.6.6(d), does not accept the total of the forecast operating expenditure for the regulatory control period that is included in the current *Revenue Proposal*, in which case the *AER* must set out its reasons for that decision and an estimate of the total of the Network Operator's required operating expenditure for the regulatory control period that the *AER* is satisfied reasonably reflects the *operating expenditure criteria*, taking into account the *operating expenditure factors*;
- (4) **[Deleted]**
- (5) in which the *AER* determines whether there is a *financeability issue* following the application of the *financeability test* and if so, how to address the *financeability issue* in accordance with clause 6A.6.3A(m);
- (5A) in which the *AER* determines how any applicable *capital expenditure sharing scheme* is to apply to the Network Operator;
- (5B) on the *allowed rate of return* for each *regulatory year* of the regulatory control period;
- (5C) on the *allowed imputation credits* for each *regulatory year* of the regulatory control period;
- (5D) on the regulatory asset base as at the commencement of the regulatory control period in accordance with clause 6A.6.1 and Schedule 6A.2;
- (5E) on whether depreciation for establishing the regulatory asset base as at the commencement of the following regulatory control period is to be based on actual or forecast capital expenditure;

**Note:**

See clause S6A.2.2B.

- (6) on whether to modify the depreciation schedules in accordance with clause 6A.6.3(d) and the EII Regulation; and
- (7) [Deleted]
- (8) [Deleted]
- (9) on the additional *pass through events* that are to apply for the regulatory control period in accordance with clause 6A.6.9.

#### **6A.14.2 Reasons for decisions**

- (a) The reasons given by the *AER* for a final decision under clause 6A.13 must set out the basis and rationale of the decision, including:
  - (1) details of the qualitative and quantitative methodologies applied in any calculations and formulae made or used by the *AER* for the purposes of its decision;
  - (2) the values adopted by the *AER* for each of the input variables in any calculations and formulae, including:
    - (i) whether those values have been taken or derived from the Network Operator's current *Revenue Proposal*; and
    - (ii) if not, the rationale for the adoption of those values;
  - (3) details of any assumptions made by the *AER* in undertaking any material qualitative and quantitative analyses for the purposes of the decision; and
  - (4) reasons for the making of any decisions, the giving or withholding of any approvals, and the exercise of any discretion, as referred to in this Chapter, for the purposes of the decision, such reasons being expressed by reference to the requirements relating to such decisions, approvals or discretions as are contained in this Chapter.
- (b) The *AER* must include in its reasons for a final decision under clause 6A.13 a statement, with supporting reasons, as to the extent to which the roll forward of the regulatory asset base from the previous regulatory control period to the commencement of the regulatory control period contributes to the achievement of the capital expenditure incentive objective.

#### **6A.14.3 Circumstances in which matters must be approved or accepted**

[Deleted]

#### **6A.15 Revocation of revenue determination for wrong information or error**

- (a) The *AER* may (but is not required to) revoke a *revenue determination* during a regulatory control period in accordance with section 54 of the EII Regulation.
  - (1)–(4) [Deleted]

- (b) If the *AER* revokes a *revenue determination* under paragraph (a), the *AER* must make a new *revenue determination* in substitution for the revoked *revenue determination* to apply for the remainder of the regulatory control period for which the revoked *revenue determination* was to apply.
- (c) If the *AER* revokes and substitutes a *revenue determination* under paragraphs (a) and (b), the substituted *revenue determination* must only vary from the revoked *revenue determination* to the extent necessary to correct the relevant error or deficiency.
- (d) [Deleted]
- (e) [Deleted]
- (f) The *AER* may only revoke and substitute a *revenue determination* under this clause 6A.15, if it has first consulted with the relevant Network Operator, Consumer Trustee and Infrastructure Planner and such other persons the *AER* considers appropriate as required by the EII Regulation.

#### **6A.16 Miscellaneous**

- (a) The *AER* may, but is not required to, consider any submission made pursuant to an invitation for submissions after the time for making the submission has expired.
- (b) Nothing in this Part E is to be construed as precluding the *AER* from *publishing* any issues, consultation and discussion papers, or holding any conferences and information sessions, that the *AER* considers appropriate.
- (c) Subject to paragraph (d), as soon as practicable after the *AER* receives a submission in response to an invitation for submissions that is made under this EII Act Chapter 6A (whether or not the submission was made before the time for making it has expired), the *AER* must *publish* that submission.
- (d) The *AER* must not *publish* a submission referred to in paragraph (c) to the extent it contains information which has been clearly identified as confidential by the person making the submission.
- (e) The *AER* may give such weight to confidential information identified in accordance with paragraph (d) in a submission as it considers appropriate, having regard to the fact that such information has not been made publicly available.
- (f) Paragraph (d) does not apply to the extent that any other provision of the EII Act or the EII Regulation permits or requires such information to be publicly released by the *AER*.

#### **6A.16A Confidentiality Guidelines**

- (a) The *AER* must make and *publish* guidelines (Confidentiality Guidelines).
- (b) The Confidentiality Guidelines must specify the manner in which the Network Operator may make confidentiality claims in its *Revenue*

*Proposal*, which may include categories of confidential information by reference to which Network Operators must classify any claims of confidentiality in their *Revenue Proposals*.

- (c) [Deleted]
- (d) [Deleted]

## **Part F Information Disclosure**

### **6A.17 Information disclosure by Network Operators**

#### **6A.17.1 Information to be provided to AER**

[Deleted]

#### **6A.17.2 Information Guidelines**

[Deleted]

### **6A.18 [Deleted]**

## **Part G Cost Allocation**

### **6A.19 Cost allocation**

#### **6A.19.1 Duty to comply with Cost Allocation Methodology**

A Network Operator must comply with the *Cost Allocation Methodology* that has been approved in respect of that Network Operator from time to time by the *AER* under this rule 6A.19.

#### **6A.19.2 Cost Allocation Principles**

The following principles constitute the *Cost Allocation Principles*:

- (1) the detailed principles and policies used by a Network Operator to allocate costs between different categories of regulated network services must be described in sufficient detail to enable the *AER* to replicate reported outcomes through the application of those principles and policies;
- (2) the allocation of costs must be determined according to the substance of a transaction or event rather than its legal form;
- (3) only the following costs may be allocated to a particular category of regulated network services:
  - (i) costs which are directly attributable to the provision of those regulated network services; and
  - (ii) costs which are not directly attributable to the provision of those regulated network services but which are incurred in providing those regulated activities, in which case such costs must be allocated to the provision of those regulated network services

using an appropriate allocator which should:

- (A) except to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be causation based; and
- (B) to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be an allocator that accords with a well-accepted *Cost Allocation Methodology*;
- (4) any *Cost Allocation Methodology* which is used, the reasons for using that methodology and the numeric quantity (if any) of the chosen allocator must be clearly described;
- (5) the same cost must not be allocated more than once;
- (6) the principles, policies and approach used to allocate costs must be consistent with the *AER's Transmission Ring-Fencing Guidelines*
- (7) **[Deleted]**
- (8) **[Deleted]**

**Note:**

The *Cost Allocation Guidelines* are required by clause 6A.19.3 to give effect to and be consistent with, the *Cost Allocation Principles*.

### **6A.19.3 Cost Allocation Guidelines**

- (a) The *AER* may apply the *Cost Allocation Guidelines*.
- (b) The *Cost Allocation Guideline* must give effect to and be consistent with the *Cost Allocation Principles*.
- (c) Without limiting the generality of paragraph (b), the *Cost Allocation Guidelines* may specify:
  - (1) the format of a *Cost Allocation Methodology*;
  - (2) the detailed information that is to be included in a *Cost Allocation Methodology*;
  - (3) the categories of regulated network services which are to be separately addressed in a *Cost Allocation Methodology*, such categories being determined by reference to the nature of those services, the persons to whom those services are provided or such other factors as the *AER* considers appropriate; and
  - (4) the allocation methodologies which are acceptable and the supporting information that is to be included in relation to such methodologies in a *Cost Allocation Methodology*.
- (d) The *Cost Allocation Guidelines* are binding on the *AER* and each Network Operator to which they apply.
- (e) **[Deleted]**

### **6A.19.4 Cost Allocation Methodology**

- (a) Each Network Operator must submit to the *AER* for its approval a

document setting out its proposed *Cost Allocation Methodology*:

- (1) **[Deleted]**
  - (2) **[Deleted]**
  - (3) prepared in accordance with the requirements set out in clause 6A.19.4 within 60 business days before the Network Operator's revenue proposal is due to the *AER*.
- (b) The *Cost Allocation Methodology* proposed by a Network Operator must give effect to and be consistent with the *Cost Allocation Guideline*.
  - (c) The *AER* may approve or refuse to approve a *Cost Allocation Methodology* submitted under paragraph (a).
  - (d) The *AER* must notify the relevant Network Operator of its decision to approve or refuse to approve the *Cost Allocation Methodology* submitted to it under paragraph (a) within 30 business days of its submission, failing which the *AER* will be taken to have approved it.
  - (e) As part of giving any approval referred to in paragraph (c), the *AER* may, after consulting with the relevant Network Operator, amend the *Cost Allocation Methodology* submitted to it, in which case the *Cost Allocation Methodology* as so amended will be taken to be approved by the *AER*.
  - (f) A Network Operator may amend its *Cost Allocation Methodology* from time to time but the amendment only comes into effect:
    - (1) 60 business days after the submission of the amendment, together with detailed reasons for the amendment, to the *AER* (unless the *AER* approves that amendment earlier, in which case it will come into effect when that earlier approval is given); and
    - (2) subject to such changes to the *Cost Allocation Methodology* (including the proposed amendment) as the *AER* notifies to the Network Operator within that period, being changes that the *AER* reasonably considers are necessary or desirable as a result of that amendment.
  - (g) A Network Operator must amend its *Cost Allocation Methodology* where the amendment is required by the *AER* to take into account any change to the *Cost Allocation Guideline*, but the amendment only comes into effect:
    - (1) on the date that the *AER* approves that amendment, or 90 business days after the submission of the amendment, whichever is the earlier; and
    - (2) subject to such changes to the *Cost Allocation Methodology* (including the proposed amendment) as the *AER* notifies to the Network Operator within that period, being changes that the *AER* reasonably considers are necessary or desirable as a result of that amendment.
  - (h) A Network Operator must maintain a current copy of its *Cost Allocation Methodology* on its website.

**Part H    Transmission Consultation Procedures**

[Deleted]

**Part I    Ring-Fencing Arrangements for Network Operators**

[Deleted]

**Part J    Prescribed Transmission Services – Regulation of Pricing**

[Deleted]

**Part K    Commercial arbitration for disputes about terms and conditions of access for prescribed and negotiated transmission services**

[Deleted]



## Schedule 6A.1 Contents of Revenue Proposals

**Note:** For the first determination for a non-contestable network infrastructure project any requirement to present historical information will not apply. The Guideline and/or and information notice issued under section 38(7) of the EII Act Information Notice will specify the variations and omissions from these requirements for an initial revenue proposal.

### S6A.1.1 Information and matters relating to capital expenditure

A *Revenue Proposal* must contain at least the following information and matters relating to capital expenditure:

- (1) a forecast of the required capital expenditure that complies with the requirements of the Transmission Efficiency Test and forecast capital expenditure requirements in clause 6A.6.7 and identifies the forecast capital expenditure by reference to well accepted categories such as:
  - (i) asset class (e.g., *transmission lines*, *substations* etc.); or
  - (ii) category driver (e.g., authorization or direction or *requirements*, replacement, *reliability*, net market benefit, business support etc.),and identifies, in respect of proposed material assets:
  - (iii) the location of the proposed asset;
  - (iv) the anticipated or known cost of the proposed asset; and
  - (v) the categories of regulated network services which are to be provided by the proposed asset;
- (2) the methodology used for developing the capital expenditure forecast;
- (3) **[Deleted]**;
- (4) the key assumptions that underlie the capital expenditure forecast;
- (5) a certification of the reasonableness of the key assumptions by the directors of the Network Operator;
- (6) capital expenditure for each of the past *regulatory years* of the previous and current regulatory control period, and the expected capital expenditure for each of the last two *regulatory years* of the current regulatory control period, categorised in the same way as for the capital expenditure forecast and separately identifying for each such *regulatory year*:
  - (i) margins paid or expected to be paid by the Network Operator in circumstances where those margins are referable to arrangements that do not reflect arm's length terms; and
  - (ii) expenditure that should have been treated as operating expenditure in accordance with the policy submitted under paragraph (9) for that *regulatory year*;
- (7) an explanation of any significant variations in the forecast capital expenditure from historical capital expenditure;

Note: Sub-clauses (6) and (7) will not apply to the initial determination for a

network infrastructure project.

- (8) any *non-network options* considered by the Network Operator; and
- (9) the policy that the Network Operator applies in capitalising operating expenditure.

### **S6A.1.2 Information and matters relating to operating expenditure**

A *Revenue Proposal* must contain at least the following information and matters relating to operating expenditure:

- (1) a forecast of the required operating expenditure that complies with the requirements of clause 6A.6.6 and identifies the forecast operating expenditure by reference to well accepted categories such as:
  - (i) particular programs; or
  - (ii) types of operating expenditure (e.g., maintenance, payroll, materials etc.),and identifies in respect of each such category:
  - (iii) to what extent that forecast expenditure is on costs that are fixed and to what extent it is on costs that are variable; and
  - (iv) the categories of regulated network services to which that forecast expenditure relates;
- (2) the methodology used for developing the operating expenditure forecast;
- (3) the forecasts of key variables relied upon to derive the operating expenditure forecast and the methodology used for developing those forecasts of key variables;
- (4) the methodology used for determining the cost associated with planned maintenance programs designed to improve the performance of the relevant network infrastructure project for the purposes of any service target performance incentive scheme that is to apply to the Network Operator in respect of the relevant regulatory control period;
- (5) the key assumptions that underlie the operating expenditure forecast;
- (6) a certification of the reasonableness of the key assumptions by the directors of the Network Operator;
- (7) operating expenditure for each of the first three *regulatory years* of the current regulatory control period, and the expected operating expenditure for each of the last two *regulatory years* of that regulatory control period, categorised in the same way as for the operating expenditure forecast;
- (8) an explanation of any significant variations in the forecast operating expenditure from historical operating expenditure; and
- (9) any *non-network options* considered by the Network Operator.

Note: Sub-clauses (4) and (8) will not apply to the initial determination for a network infrastructure project.

### **S6A.1.3 Additional information and matters**

A *Revenue Proposal* must contain at least the following additional information and matters:

- (1) an identification and explanation of any significant interactions between the forecast capital expenditure and forecast operating expenditure programs;
- (1A) which of the following incentive schemes the Network Operator proposes will apply to the Network Operator:
  - (i) *service target performance incentive scheme*;
  - (ii) *efficiency benefit sharing scheme*;
  - (iii) *capital expenditure sharing scheme*;
- (2) the values that the Network Operator proposes are to be attributed to the *performance incentive scheme parameters* for the purposes of the application to the Network Operator of any EII service target performance incentive scheme that applies in respect of the relevant regulatory control period, and an explanation of how the values proposed to be attributed to those parameters comply with any requirements relating to them set out in that scheme;
- (3) the values that the Network Operator proposes are to be attributed to the *efficiency benefit sharing scheme parameters* for the purposes of the application to the Network Operator of any *efficiency benefit sharing scheme* that applies in respect of the relevant regulatory control period, and an explanation of how the values proposed to be attributed to those parameters comply with any relevant requirements set out in that scheme;
- (3A) a description, including relevant explanatory material, of how the Network Operator proposes any *capital expenditure sharing scheme* that applies in respect of the forthcoming *revenue determination* should apply to it;
- (3B) **[Deleted]**
- (3C) **[Deleted]**
- (4) the Network Operator's calculation of:
  - (i) the estimated *total revenue cap* for it for the relevant regulatory control period; and
  - (ii) the *maximum allowed revenue* for it for each *regulatory year* of the relevant regulatory control period,using the *post-tax revenue model* referred to in clause 6A.5, together with:
  - (iii) details of all amounts, values and other inputs used by the Network Operator for that purpose;
  - (iv) a demonstration that any such amounts, values and other inputs comply with the relevant requirements of Part C of Chapter 6A; and
  - (v) an explanation of the calculation of the amounts referred to in subparagraphs (i) and (ii) and of the amounts, values and inputs referred to in subparagraph (iii);

- (4A) the Network Operator's calculation of the *allowed rate of return* for each *regulatory year* of the relevant regulatory control period;
- (4B) the Network Operator's calculation of the *allowed imputation credits* for each *regulatory year* of the regulatory control period;
- (5) the Network Operator's calculation of the regulatory asset base for the relevant network infrastructure project for each *regulatory year* of the relevant regulatory control period using the *roll forward model* referred to in clause 6A.6.1, together with:
  - (i) details of all amounts, values and other inputs used by the Network Operator for that purpose;
  - (ii) a demonstration that any such amounts, values and other inputs comply with the relevant requirements of Part C of Chapter 6A; and
  - (iii) an explanation of the calculation of the regulatory asset base for each *regulatory year* of the relevant regulatory control period and of the amounts, values and inputs referred to in subparagraph (i);
- (6) **[Deleted]**
- (7) the depreciation schedules nominated by the Network Operator for the purposes of clause 6A.6.3, which categorise the relevant assets for these purposes by reference to well accepted categories such as:
  - (i) asset class (e.g., *transmission lines* and *substations*); or
  - (ii) category driver (e.g., authorization or direction or *requirements*, replacement, *reliability*, net market benefit, and business support),
 and also by location, together with:
  - (iii) details of all amounts, values and other inputs used by the Network Operator to compile those depreciation schedules;
  - (iv) a demonstration that those depreciation schedules conform with the requirements set out in clause 6A.6.3(b) of the NER and the EII Regulation; and
  - (v) an explanation of the calculation of the amounts, values and inputs referred to in subparagraph (iii);
- (8) **[Deleted]**
- (8A) whether the depreciation schedules contain any proposed modifications in accordance with clause 6A.6.3(d) and the EII Regulation and, if so, the reasons why the Network Operator considers that such modifications are reasonably necessary under section 47D(3) of the EII Regulation;
- (9) **[Deleted]**
- (10) **[Deleted]**
- (11) Include a statement of whether the Network Operator's revenue proposal is consistent with the relevant Consumer Trustee authorisation or Minister's direction or authorisation and, if it is different, identify and

provide reasons for the differences.

- (12) Include the revenue (in total and annually) to be paid to the Network Operator for carrying out the project, including a break-down of the total and annual amounts into their components (as set out under section 38 of the EII Act and the EII Regulation).
- (13) Include a schedule of payments setting out quarterly amounts proposed to be paid to the Network Operator by the Scheme Financial Vehicle (as defined under the EII Act) for carrying out the project, and the methodology by which these quarterly amounts are to be calculated from the total revenue.
- (14) Include a formulaic description of any mechanisms that will be used to adjust the revenue proposed to be paid to the Network Operator and the schedule of payments within the regulatory control period (for example, to adjust payments for actual inflation or movements in the wage price index). For each mechanism, provide:
  - (i) a description of the components to be adjusted
  - (ii) the timing of the adjustment for each component, or relevant trigger event
  - (iii) a detailed explanation of the proposed method of indexation, escalation or adjustment
  - (iv) identification of the authoritative source (or sources) of indices or data to be used for any indexation, escalation or adjustment.
- (15) Include the proposed costs imposed on the Network Operator and how those costs were calculated.<sup>2</sup>
- (16) Include payments required to be made by the Network Operator to the Infrastructure Planner under any contractual arrangement. These costs may include the costs of early development works, preparatory activities and project management undertaken by the Infrastructure Planner (including land, easements, project development work, client delivery and related costs) that are being passed through to the Network Operator.
- (17) Include for all financial values the dollar terms in which the amounts are presented.
- (18) Total development and construction capex necessary to carry out the network infrastructure project according to the Consumer Trustee's authorisation or Minister's direction or authorisation:
  - (i) A forecast of development and construction capex the Network Operator will incur in the first regulatory control period.
  - (ii) A forecast of development and construction capex the Network Operator will incur in one or more subsequent regulatory control periods.
  - (iii) How the proposed staging of development and construction capex

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<sup>2</sup> EII Regulation, s. 46(b)(1).

complies with the terms of the Consumer Trustee's authorisation or Minister's authorisation or direction.

- (19) Be accompanied by an overview paper which includes:
- (i) a summary of the revenue proposal, the purpose of which is to explain the revenue proposal in reasonably plain language to electricity consumers;
  - (ii) a summary of the scope and terms of the Consumer Trustee's authorisation or the Minister's direction and the network infrastructure project the authorisation requires the Network Operator to carry out;
  - (iii) a description of how the Network Operator has engaged with electricity consumers and, if so, what feedback was provided and how that feedback has been taken into account in developing the revenue proposal; and
  - (iv) for each determination after the initial determination, a comparison of the Network Operator's proposed revenue cap with its approved revenues for the preceding regulatory control period (by total and by component).

## Schedule 6A.2 Regulatory Asset Base

### S6A.2.1 Establishment of opening regulatory asset base for a regulatory control period

(a) **Application of this clause**

This clause S6A.2.1:

- (1) applies to the establishment of the value of the regulatory asset base for a network infrastructure project as at the beginning of a regulatory control period on the roll forward of the regulatory asset base to that regulatory control period from the previous regulatory control period; and
- (2) also applies to the establishment of the value of the regulatory asset base for a network infrastructure project as at the beginning of a regulatory control period where the network infrastructure project was not immediately before that time the subject of a *revenue determination*.

(b) **Roll forward model to comply with this clause**

The *roll forward model* referred to in clause 6A.6.1 must provide for those values to be established in accordance with the requirements of clauses S6A.2.1 and S6A.2.2.

(c) **[Deleted]**

(d) **[Deleted]**

(e) **[Deleted]**

(f) **Method of adjustment of value of regulatory asset base**

Except as otherwise provided in paragraph (d) or (g), the value of the regulatory asset base for a network infrastructure project as at the beginning of the first *regulatory year* of a regulatory control period must be calculated by adjusting the value (the previous value) of the regulatory asset base for that network infrastructure project as at the beginning of the first *regulatory year* of the immediately preceding regulatory control period (the previous control period) as follows:

- (1) The previous value of the regulatory asset base must be:
  - (i) increased by the amount of all capital expenditure incurred during the previous control period; and
  - (ii) reduced by the amount of any capital expenditure that has been recovered by way of a pass through under clause 6A.7.2 or clause 6A.7.3 where the amount of that capital expenditure would otherwise have been included in the value of the regulatory asset base.
- (2) The previous value of the regulatory asset base must be increased by the amount of the estimated capital expenditure approved by the *AER* for any part of the previous control period for which actual capital expenditure is not available.

- (3) The previous value of the regulatory asset base must be adjusted for the difference between:
- (i) the estimated capital expenditure for any part of a previous regulatory control period where that estimated capital expenditure has been included in that value; and
  - (ii) the actual capital expenditure for that part of the previous regulatory control period.

This adjustment must also remove any benefit or penalty associated with any difference between the estimated and actual capital expenditure.

- (4) The previous value of the regulatory asset base must only be increased by actual or estimated capital expenditure to the extent that all such capital expenditure is properly allocated to the provision of regulated network services in accordance with the *Cost Allocation Methodology* for the relevant Network Operator.
- (5) The previous value of the regulatory asset base must be reduced by the amount of depreciation of the regulatory asset base during the previous control period, calculated in accordance with the rates and methodologies allowed in the revenue determination (if any) for that period.
- (6) The previous value of the regulatory asset base must be reduced by the disposal value of any asset where that asset has been disposed of during the previous control period.
- (7) **[Deleted]**
- (8) Without prejudice to the application of any other provision of this paragraph (f), the previous value of the regulatory asset base may be increased by the inclusion of:
- (i) past capital expenditure that has not been included in that value because that capital expenditure was incurred in connection with the provision of services that are not regulated network services, and in these circumstances, such capital expenditure must only be included to the extent the asset in respect of which that capital expenditure was incurred is subsequently used for the provision of regulated network services; and
  - (ii) past capital expenditure that has not been included in that value, but only to the extent that such past capital expenditure:
    - (A) relates to an asset that is used for the provision of regulated network services;
    - (B) is considered by the *AER* to be reasonably required in order to achieve one or more of the *capital expenditure objectives*;
    - (C) is properly allocated to regulated network services in accordance with the principles and policies set out



in the *Cost Allocation Methodology* for the relevant Network Operator; and

(D) has not otherwise been recovered.

- (g) The previous value of the regulatory asset base must be reduced by any amount determined by the *AER* in accordance with clause S6A.2.2A(f), (i) or (j).

## **S6A.2.2 Prudency and efficiency of capital expenditure**

**[Deleted]**

### **S6A.2.2A Reduction for inefficient past capital expenditure**

- (a) Prior to making a decision on the regulatory asset base for a network infrastructure project as required by clause 6A.14.1(5D), the *AER* may determine under this clause S6A.2.2A that the amount of capital expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6A.2.1(f) should be reduced.
- (a1) For the purposes of this clause S6A.2.2A, "review period" means:
- (1) the previous control period (excluding the last *regulatory years* of that previous control period); and
  - (2) the last *regulatory years* of the regulatory control period preceding the previous control period.
- (b) The *AER* may only make a determination under paragraph (a) if any of the following requirements is satisfied:
- (1) the requirement set out in paragraph (c) (the *overspending requirement*);
  - (2) the requirement set out in paragraph (d) (the *margin requirement*); or
  - (3) the requirement set out in paragraph (e) (the *capitalisation requirement*).
- (c) The *overspending requirement* is satisfied where the sum of all capital expenditure incurred during the review period exceeds the sum of:
- (1) the forecast capital expenditure accepted or substituted by the *AER* for the review period as such forecast capital expenditure has been adjusted in accordance with clauses 6A.7.1(f) and 6A.8.2(h); and
  - (2) any capital expenditure that is recovered by way of such part of an *approved pass through amount*, or of a *network support pass through amount*, as is permitted to be passed through during the review period less any capital expenditure that is included in a *negative pass through amount*, or in a *network support pass through amount*, that is required to be passed through during the review period.
- (d) The *margin requirement* is satisfied where the amount of the capital

expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6A.2.1(f) includes capital expenditure that represents a margin paid by the Network Operator in circumstances where the margin is referable to arrangements that, in the opinion of the *AER*, do not reflect arm's length terms.

- (e) The *capitalisation requirement* is satisfied where the amount of the capital expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6A.2.1(f) includes expenditure that, under the Network Operator's applicable capitalisation policy submitted to the *AER* as part of its *Revenue Proposal*, should have been treated as operating expenditure.
- (f) Where the *overspending requirement* is satisfied, and subject to paragraphs (g) and (h), the *AER* may determine that the amount of the capital expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6A.2.1(f) should be reduced by such amount as the *AER* is satisfied corresponds to capital expenditure incurred during the review period that does not reasonably reflect the *capital expenditure criteria*.
- (g) The amount determined by the *AER* under paragraph (f):
  - (1) must not be greater than the amount calculated in accordance with paragraph (c);
  - (2) must be determined in a manner that is consistent with the *capital expenditure incentive objective*, and
  - (3) must be determined taking into account the *Expenditure Incentive Guidelines*.
- (h) In making a determination under paragraph (f), the *AER* must:
  - (1) have regard to the *capital expenditure factors*; and
  - (2) only take into account information and analysis that the Network Operator could reasonably be expected to have considered or undertaken at the time that it undertook the relevant capital expenditure.
- (i) Where the *margin requirement* is satisfied, and subject to paragraph (k), the *AER* may determine that the amount of the capital expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6A.2.1(f) should be reduced by such of the margin referred to in paragraph (d) as the *AER* is reasonably satisfied would not have been paid if the arrangements to which the margin is referable had been on arm's length terms.
- (j) Where the *capitalisation requirement* is satisfied, and subject to paragraph (k), the *AER* may determine that the amount of the capital expenditure as a result of which the previous value of the regulatory asset base would otherwise be increased in accordance with clause S6A.2.1(f) should be reduced by any or all of the amount of expenditure referred to in paragraph

- (e) which should have been treated as operating expenditure.
- (k) A determination made under paragraph (i) or (j) must be consistent with the *capital expenditure incentive objective* and, in making such a determination, the AER must take into account the *Capital Expenditure Incentive Guidelines* and the AER's *Guidance Note - Regulation of actionable ISP projects*.
- (l) Nothing in this clause S6A.2.2A is to be taken to preclude the AER from:
  - (1) requiring a Network Operator to provide such information; or
  - (2) from undertaking such analysis,as the AER considers appropriate to enable it to make a statement, with supporting reasons, as referred to in clause 6A.14.2(a).

#### **S6A.2.2B Depreciation**

- (a) Pursuant to clause 6A.14.1(5D), the AER must decide, for a final decision under clause 6A.13, whether depreciation for establishing the regulatory asset base for a network infrastructure project as at the commencement of the following regulatory control period is to be based on actual or forecast capital expenditure.
- (b) The decision referred to in paragraph (a) must be consistent with the *capital expenditure incentive objective* and EII Regulation.
- (c) In making the decision referred to in paragraph (a), the AER must have regard to:
  - (1) the incentives that the Network Operator has in relation to undertaking efficient capital expenditure, including as a result of the application of any incentive scheme or any other incentives under the EII Regulation;
  - (2) the substitution possibilities between assets with relatively short economic lives and assets with relatively long economic lives and the relative benefits of such asset types;
  - (3) the extent to which any capital expenditure incurred by the Network Operator has exceeded the corresponding amount of forecast capital expenditure accepted or substituted by the AER and the amount of that excess expenditure which is not efficient;
  - (4) the *Capital Expenditure Incentive Guidelines*; and
  - (5) the *capital expenditure factors* and Transmission Efficiency Test.

#### **S6A.2.3 Removal of assets from regulatory asset base**

[Deleted]

#### **S6A.2.4 Roll forward of regulatory asset base within the same regulatory control period**

- (a) **Application of this clause**

This clause S6A.2.4 applies to the establishment of the value of the

regulatory asset base for a network infrastructure project as at the beginning of one *regulatory year* in a regulatory control period on the roll forward of the regulatory asset base to that *regulatory year* from the immediately preceding *regulatory year* (if any) in that regulatory control period.

(b) **Roll-forward model to comply with this clause**

The *roll-forward model* referred to in clause 6A.6.1 must provide for that value to be established in accordance with the requirements of this clause S6A.2.4.

(c) **Method of adjustment of value of regulatory asset base**

The value of the regulatory asset base for a network infrastructure project as at the beginning of the second or a subsequent year (**the later year**) in a regulatory control period must be calculated by adjusting the value (the **previous value**) of the regulatory asset base for that network infrastructure project as at the beginning of the immediately preceding *regulatory year* (the **previous year**) in that regulatory control period as follows:

- (1) The previous value of the regulatory asset base must be increased by the amount of forecast capital expenditure accepted or substituted by the *AER* for the previous year in accordance with clause 6A.6.7(c) or clauses 6A.13.2(b)(4) and (5) (as the case may be).
- (2) The previous value of the regulatory asset base must be reduced by the amount of depreciation included in the *annual building block revenue requirement* for the previous year.
- (3) The previous value of the regulatory asset base must be reduced by the disposal value of any asset included in that value where the asset is forecast to be disposed of during the previous year.
- (4) The previous value of the regulatory asset base must be increased by an amount necessary to maintain the real value of the regulatory asset base as at the beginning of the later year by adjusting that value for inflation.

(d) **Allowance for working capital**

If the *AER* determines that it is appropriate to do so, it may include an allowance for working capital in the regulatory asset base for a network infrastructure project which is rolled forward in accordance with this clause S6A.2.4.

**Schedule 6A.3 CRNP methodology and modified CRNP methodology**

[Deleted]

**Schedule 6A.4 Application of this Chapter to AEMO and declared transmission system operators**

[Deleted]